

AR65

SEARS

CANADA 



www.sears.ca/ar99
online to the future

1999 ANNUAL REPORT

Sears Canada is Innovation. By constantly stretching boundaries, using imagination and the latest in cutting edge technology, Sears continues to seek out new ways to innovate – for our customers, our associates and our shareholders.

This year was no different. The Sears visionary, leading edge approach to business has generated a revolutionary tool for investors.

Introducing Sears first Interactive Annual Report, the evolution in investor relations. Simple and logical navigation combine with dynamic graphics, movement and sound to provide added colour and life to Sears Canada, 24 hours a day, 7 days a week, at www.sears.ca/ar99.

Sears – using technology like no other retailer in Canada, and always thinking ahead to maintain its *leading edge*.

Leading

www.sears.ca/ar99





INTERACTIVE. That says it all about Sears Canada in 1999. Interactive is, of course, an idea widely associated with the Internet, where one is no longer passive, but actively involved in a process. Interactive is also representative of the way Sears continued to take an innovative approach to relating to its customers in 1999. We improved how we serve customers through our multiple channels, offering them new ways to access and inter-relate with Sears for an ever-widening presentation of products and services.

Over the past several years, we've become more interactive with our associates and our customers. Now we're making ourselves more interactive with our valued shareholders.



contents

Sears Canada Annual Report 1999

Sears is Canada's largest single full-line retailer of general merchandise and home-related services, with department and specialty stores nationwide, complemented by the country's only general merchandise catalogue, and a comprehensive website. The Company emphasizes quality and service in appealing to a broad cross-section of Canadian consumers.

The Company's Vision is to be Canada's most successful retailer by providing our customers with total shopping satisfaction, our associates with opportunities to grow and contribute, and our shareholders with superior returns on their investment: a Great Place To Shop, Work and Invest.

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FINANCIAL highlights 1999

For the 52 weeks ended January 1, 2000 and January 2, 1999

Results for the year (in millions)

	1999	1998
Total revenues ¹	\$ 6,131	\$ 5,481
Interest expense	72	86
Earnings before income taxes	345	269
Income tax expense	145	123
Net earnings	200	146

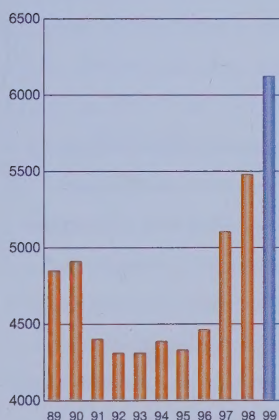
Year end position (in millions)

Working capital	\$ 681	\$ 898
Total assets	3,546	3,198
Shareholders' equity	1,346	1,164

Per share of capital stock (in dollars)

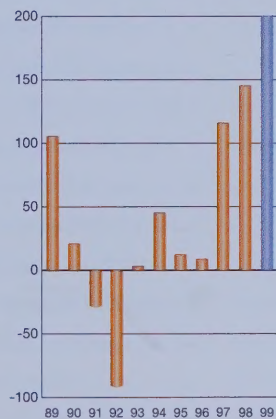
Net earnings	\$ 1.88	\$ 1.38
Dividends declared	0.24	0.24
Shareholders' equity	12.67	10.98

Total Revenues¹



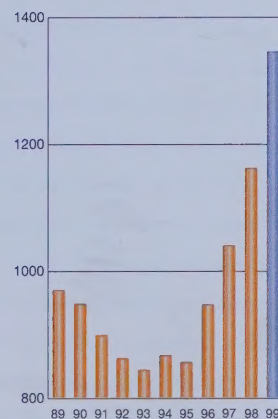
(\$ millions)

Net Earnings (Loss)



(\$ millions)

Shareholders' Equity



(\$ millions)

¹ Beginning in January, 1999, in order to be more in line with industry practices, the Company elected to report certain activities as revenues, whereas these had previously been reported as recoveries against operating expenses. These activities include travel sales and licensed department sales within the full-line stores, as well as other miscellaneous revenues. Prior period results have been restated to reflect this change.

1999 was another year of outstanding progress for our Company in achieving our mission of being Canada's most successful retailer. For the third consecutive year, we are pleased to report record revenues and earnings and substantial market share growth.

Letter to Our Shareholders

Total revenues in 1999 increased by \$650 million dollars. This represents an 11.9% increase over 1998 and an increase of almost \$1.7 billion dollars in the past three years.

Earnings have also continued to show substantial improvement. In 1999, earnings per share were \$1.88, a 36% increase over 1998's results and a 21-fold increase over the past three years.

As a result of this strong and consistent trend in our business, Sears Canada's stock price increased by 122% in 1999, adding more than two billion dollars to our market capitalization over the past 12 months.

This continued improvement in all facets of our business is, without question, the result of the dedication, commitment and willingness of all 46,000 Sears Canada associates to work together as a team.

Much was accomplished because of their efforts. We continued to implement our aggressive plan to create a brand new Sears through extensive renovations within our department store sales channel.

In 1999, 16 of our department stores were refurbished across the country. We have now completed the repositioning of more than 40% of our total space devoted to department stores. We built two new stores in 1999. One was a replacement store in Kingston, Ontario. The second, in Abbotsford, British Columbia, is a welcome addition to the group and brings the total number of stores in the full-line sales channel to 110 department stores.

Our furniture and appliances stores are performing beyond expectations and we are well into our national rollout of this format. Last year we added five new stores, relocated and expanded two locations (Mississauga and Kitchener, Ontario) and expanded our successful store in Laval, Quebec. This brings the total number of furniture and appliances stores to 25, and ten additional stores are planned for 2000.



"Sears interacts with customers like no other Canadian retailer. We serve our customers through full-line department stores and in the year 2000, through a number of downtown Eaton's department stores. We're the largest single catalogue retailer of general merchandise in the country with more than 2,000 order pick-up locations, handling over 22 million orders annually. Our customers can shop with us online at www.sears.ca from the comfort of their home. We have 110 dealer stores, 25 furniture and appliances stores, 12 outlet stores and 15 floor covering centres. We're one of the largest travel agencies in Canada, with 87 offices. We have 67 auto centres. And we have a growing home and renovation services business. All of these channels are supported by the Sears Card, Canada's largest single-issue credit card. The many ways we interact with and engage our customers, is a unique Sears strength."

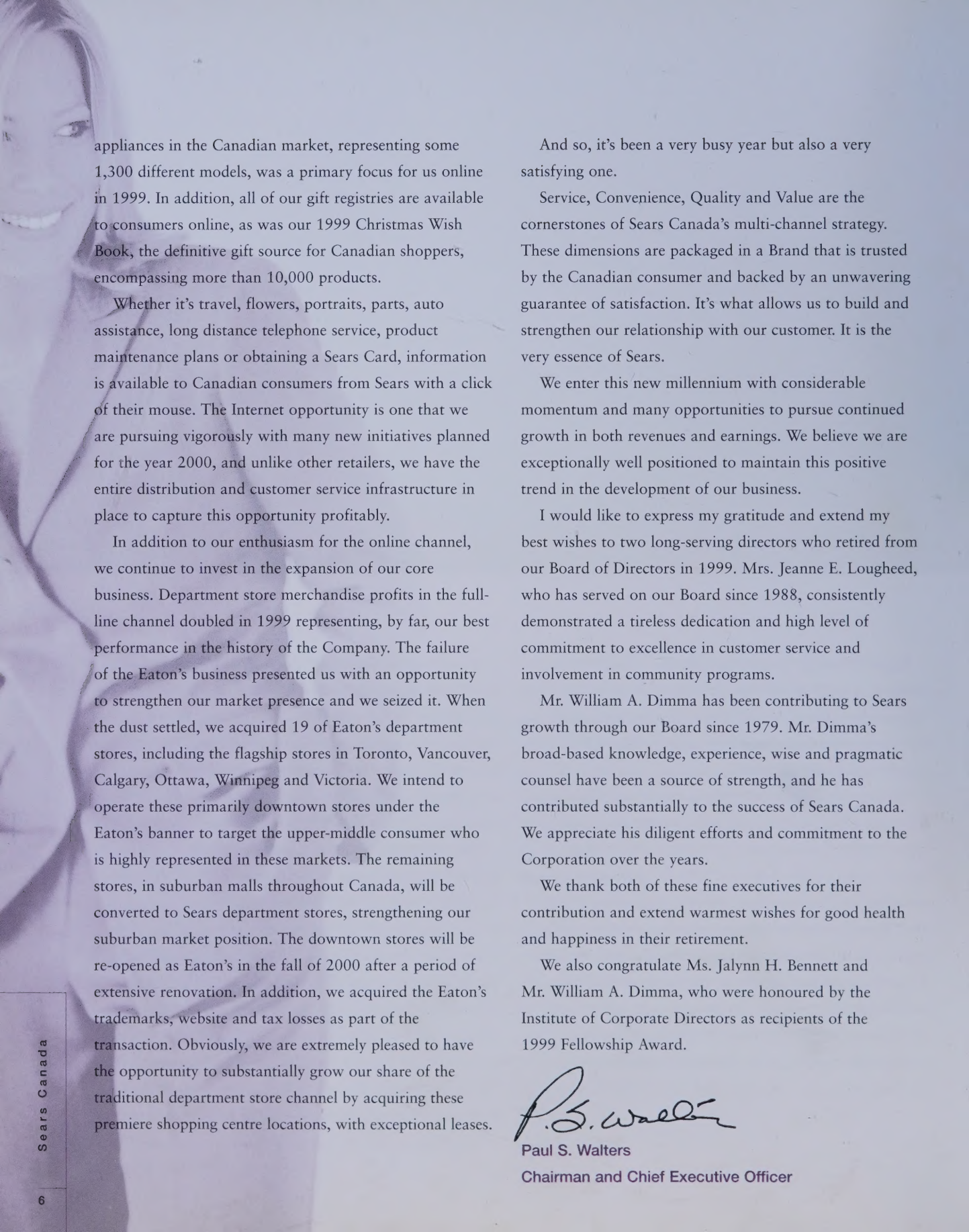
— Paul Walters, Chairman & Chief Executive Officer

In rural Canada, we are expanding our Dealer Store presence and in 1999 we added 17 more stores to this channel. In addition, we added 107 new catalogue order pick-up locations to our network of more than 2,000 locations throughout Canada.

We have continued our focus on accommodating the needs of the 'do-it-for-me' home maintenance and repair market following the successful launch of Sears HomeCentral (1-800-4-MY-HOME). In 1999, we expanded our home services offerings (beginning in the Ottawa market) to include natural gas services, an innovative initiative designed to capture the opportunity associated with deregulation in the energy sector of the market. Strategic alliances involving energy (natural gas and electricity) will enable Sears to build an integrated service offering, leveraging our existing capabilities in cooling, heating, air treatment and maintenance.

In addition, we opened 15 Sears Floor Covering Centres in 1999. Our target is 150 units over the next 5 years. Sears HomeCentral showrooms were added to our furniture and appliances stores in Mississauga, Ontario and Laval, Quebec to demonstrate our wide-ranging product and service offerings in this channel. We plan to open more of these showrooms in the future.

Our online sales channel is a source of great opportunity and success in our Company. Our catalogue business continues to perform very well and makes an important contribution to the profitability of the organization. In addition, it provides the unique-to-Sears infrastructure and capability required to profitably access the emerging Internet-based, direct-to-customer sales opportunity. In 1999, we made significant strides in developing our Internet business. Our Internet orders were \$22 million, more than seven times higher than 1998. Sears Brand Central, offering the widest selection of major



appliances in the Canadian market, representing some 1,300 different models, was a primary focus for us online in 1999. In addition, all of our gift registries are available to consumers online, as was our 1999 Christmas Wish Book, the definitive gift source for Canadian shoppers, encompassing more than 10,000 products.

Whether it's travel, flowers, portraits, parts, auto assistance, long distance telephone service, product maintenance plans or obtaining a Sears Card, information is available to Canadian consumers from Sears with a click of their mouse. The Internet opportunity is one that we are pursuing vigorously with many new initiatives planned for the year 2000, and unlike other retailers, we have the entire distribution and customer service infrastructure in place to capture this opportunity profitably.

In addition to our enthusiasm for the online channel, we continue to invest in the expansion of our core business. Department store merchandise profits in the full-line channel doubled in 1999 representing, by far, our best performance in the history of the Company. The failure of the Eaton's business presented us with an opportunity to strengthen our market presence and we seized it. When the dust settled, we acquired 19 of Eaton's department stores, including the flagship stores in Toronto, Vancouver, Calgary, Ottawa, Winnipeg and Victoria. We intend to operate these primarily downtown stores under the Eaton's banner to target the upper-middle consumer who is highly represented in these markets. The remaining stores, in suburban malls throughout Canada, will be converted to Sears department stores, strengthening our suburban market position. The downtown stores will be re-opened as Eaton's in the fall of 2000 after a period of extensive renovation. In addition, we acquired the Eaton's trademarks, website and tax losses as part of the transaction. Obviously, we are extremely pleased to have the opportunity to substantially grow our share of the traditional department store channel by acquiring these premiere shopping centre locations, with exceptional leases.

And so, it's been a very busy year but also a very satisfying one.

Service, Convenience, Quality and Value are the cornerstones of Sears Canada's multi-channel strategy. These dimensions are packaged in a Brand that is trusted by the Canadian consumer and backed by an unwavering guarantee of satisfaction. It's what allows us to build and strengthen our relationship with our customer. It is the very essence of Sears.

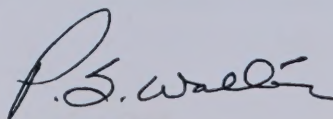
We enter this new millennium with considerable momentum and many opportunities to pursue continued growth in both revenues and earnings. We believe we are exceptionally well positioned to maintain this positive trend in the development of our business.

I would like to express my gratitude and extend my best wishes to two long-serving directors who retired from our Board of Directors in 1999. Mrs. Jeanne E. Lougheed, who has served on our Board since 1988, consistently demonstrated a tireless dedication and high level of commitment to excellence in customer service and involvement in community programs.

Mr. William A. Dimma has been contributing to Sears growth through our Board since 1979. Mr. Dimma's broad-based knowledge, experience, wise and pragmatic counsel have been a source of strength, and he has contributed substantially to the success of Sears Canada. We appreciate his diligent efforts and commitment to the Corporation over the years.

We thank both of these fine executives for their contribution and extend warmest wishes for good health and happiness in their retirement.

We also congratulate Ms. Jalynn H. Bennett and Mr. William A. Dimma, who were honoured by the Institute of Corporate Directors as recipients of the 1999 Fellowship Award.



Paul S. Walters

Chairman and Chief Executive Officer



Progress in 1999 on 5 Key Imperatives

Key Imperative:

Accomplishments:

- 1 Increase Merchandising Revenues at 2x the Market Growth Rate
 - Merchandising revenues increased by 12.5%. The market grew 6.1% in 1999.*
- 2 Grow Merchandising Earnings Before Interest and Income Taxes (EBIT) to 5% of revenues
 - Merchandising EBIT % increased from 3.8%** in 1998 to 4.8% in 1999, an improvement of 100 basis points.
- 3 Increase Shareholder Value
 - Earnings increased 36% to \$199.6 million.
 - Return on shareholders' equity increased to 15.9% from 13.3% in 1998.
 - Share price rose from \$18 to \$40 in 1999.
- 4 Protect and Grow Credit Business
 - Newly installed technology allows processing for new Sears Card applications to be completed in less than 20 seconds.
 - A record 928,295 new Sears Card accounts were opened in 1999.
 - Sears Card continues as preferred method of payment with 62% of sales charged on the Sears Card.
- 5 Create A Winning Organization
 - Performance improvement in all key areas tracked: associate satisfaction, customer loyalty and financial measures.

* The market is defined as total retail sales as measured by Statistics Canada, less food stores, auto dealers, misc. other stores
 ** Refer to information on Revenue Restatement on page 3.



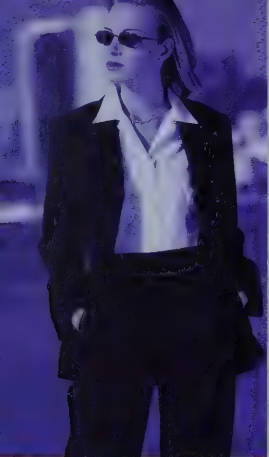
Third Record Year

for Sears Capped by

Eaton's Acquisition

"Sears has achieved its third consecutive year of record earnings through a unique mix of channels, all supporting, strengthening and enhancing each other. The acquisition of key downtown Eaton's stores will open new doors for us in 2000."

— Paul Walters, Chairman & Chief Executive Officer



A Rewarding Year

Sears accomplishments in 1999 were recognized by two important awards from the Retail Council of Canada. Sears Canada won the Innovative Retailer of the Year Award, and Paul Walters was selected Distinguished Canadian Retailer of the Year. Sears also won the Canadian Marketing Association's Director's Choice Award for outstanding excellence in integrated marketing and significant contribution to the evolution of marketing in Canada.

During the year, Sears continued to improve and expand the many unique ways it interacts with its customers. Building on the record results the Company has posted every quarter since the third quarter of 1997, all major sales channels recorded solid sales growth. This has been a result of Sears focus on building on the advantages of being a full-line, multi-channel retailer with multi-access points to its customers.

Sears experienced reductions in costs per transaction as a result of its activity-based cost management approach. The Company focused on developing cross-shoppers: people, who as a result of a good experience in one channel, purchase from other Sears channels as well. Research has shown that shoppers who use more channels spend up to eight times more than single-channel shoppers. Empowering associates to deliver customer satisfaction across all channels was also part of this strategy. For example, shoppers can order merchandise in a department store and pick it up at a catalogue agent, or purchase an item on the Internet and return it at a department store. Combined with these initiatives, Sears measurements of customer satisfaction and service excellence were expanded and utilized for continuous improvement in customer loyalty.

A New Life for Eaton's

In the fall of 1999, Sears announced a proposal to acquire all of the common shares, the name and brands of The T. Eaton Company Limited and a number of stores, including key downtown locations. For over 130 years, Eaton's has been a trusted name in Canadian retailing. Sears will give this tradition of service a new life through a planned rebranding and rebuilding of the name. Full-line department stores, under the Eaton's banner, will be opened in 2000, supported by a new Eaton's catalogue and website.

Sears will be able to tap into a whole new Canadian market segment – the downtown customer, a higher-end department store consumer – and do so without compromising the solid mid-market position of its Sears brand in suburban markets. This will be a powerful channel to reach new customers.

"The combination of Sears and Eaton's brands will provide the Company with the greatest relevance to the broadest range of Canadian households, powered by the broadest assortment of merchandise in the market," says Paul Walters, Chairman and Chief Executive Officer. "This step by Sears not only transforms the Canadian shopping mall and department store landscape, it takes Sears to a new level in Canadian retailing." See page 33 for details.



Back



Forward



Reload



Home



Search



Netscape



Print



Security



Shop



Stop



Bookmarks



Netsite:

<http://www.sears.ca/ar99>

SEARS

**“We are positioned to be the
Dominant Online Retailer
of the Future in Canada.”**

– Garry Smith, Vice-President, Online Merchandising

Times are Changing – Not Our Tradition of Service

Sears has built on its tradition of service in the catalogue business to become Canada's largest Internet merchandise company. Sears began a 'Mail Order' operation back in 1953. In those early days, half the orders were received through the mail. By the 1960's only one order in ten arrived by mail. With changing times, the operation was renamed the 'catalogue' business. In 1996, www.sears.ca made its debut online with 50 products for sale. By 1998, www.sears.ca reached \$3 million in sales. During the 1999 Christmas period, sales online topped more than a million dollars per week. In the near future, expectations are that online ordering will dramatically increase. To reflect the new reality of the business, the name of the catalogue operation was changed in 1999 to Sears Online.

“The unique, incremental value of the Internet for us lies in the synergistic opportunities with the rest of the Company... it is the one place where the whole Company can come together for use by any associate, anywhere, to offer our customers more service and more selection.” – Bill Turner, Executive Vice-President, Merchandising and Logistics



Interacting with Customers Like No Other Canadian Retailer

“Online doesn’t just mean merchandise on a website,” says Scott Marshall, Vice-President, Online Sales. “Online for us means instant access to our products and services, however the customer wants to shop from us – whether it’s the personal service of a telephone sales associate at 1-800-26-SEARS, Canada’s most frequently called telephone number... the convenience of placing an order while you’re shopping in our department stores... or the speed and control of placing an order on a secure website – Sears is unique in what it offers the Canadian consumer online.”

The Company plans to put Internet terminals in its department and furniture and appliances stores to give sales associates instant access to the extensive selection available online.

The Beginning of an Exciting New Era

Sears is able to pursue electronic retailing opportunities without huge start-up capital investment, thanks to Sears established infrastructure. The Company already has in place the major components of effective Internet marketing. Sears can market its website through its millions of retail flyers, catalogues, Sears Card statements, in-store signage and independent dealers across Canada. Sears can offer an extremely broad, unique selection as it has the only general merchandise catalogue in Canada. Sears has a rich database of information collected from all areas of its operations, allowing it to develop personalized relationship marketing based on actual customer behaviour. And finally, in order to deliver as ordered, and on time, Sears utilizes its catalogue fulfillment operations, which already meet its delivery date promises 98% of the time.

With approximately six million site visits in 1999, 150,000 orders and \$22 million in sales, this is just the beginning of an exciting era in the Company’s history. Sears is positioned to be the dominant online retailer of the future in Canada.

The Many Ways Sears Interacts with you

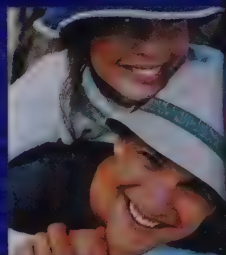
Only Sears can offer 24 hours a day, 7 days a week convenience as a result of its multi-channel network... no other retailer in Canada is open to serve its customers anywhere, anytime, anyway with so many products and services.

Online

Catalogue

'The only general merchandise catalogue in Canada.'

Sears published 20 different catalogues in 1999, each reaching more than 4 million households. Customers can order by calling 1-800-26-SEARS, by fax or over the Internet. Sears has over 2,000 catalogue order pick-up locations across the country. The catalogue offers a department store selection of over 50,000 stock numbers.



Sears Department Stores

'Sears is the only full-line department store in Canada.'

Sears has 110 full-line department stores across the country. Two new stores opened and 16 were refurbished in 1999 to reflect Sears new look with an expanded apparel and home fashion selection. Most of the Eaton's suburban stores acquired will be converted to Sears stores in 2000.

Eaton's Department Stores

'A new opportunity to connect with the downtown customer.'

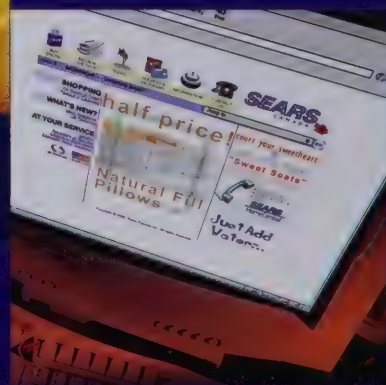
Sears has acquired key Eaton's locations in Toronto, Ottawa, Winnipeg, Calgary, Vancouver, and Victoria. Following renovations, these stores will be reopened in 2000 under the Eaton's banner.



Internet

'Sears is open 24 hours a day, 7 days a week at www.sears.ca.'

Customers can now choose from literally hundreds of thousands of styles and sizes of everything from apparel to bedding to appliances to tools...anytime, anywhere they want it, 24 hours a day, delivered anywhere in Canada. Sears Christmas Wish Book was made available online this year and the incomparable Sears Brand Central appliance selection was launched online.





Sears Floor Covering Centres

'Local expertise and a vast selection.'

15 Sears Floor Covering Centres were opened in 1999 with plans to open 150 stores by the year 2004. Independently owned and operated, these centres offer an impressive selection of floor coverings backed by Sears national service.



Dealer Stores

'The national resources of Sears and personal service from your neighbour.'

Dealer stores are independently owned and operated, and offer full catalogue services, a large selection of appliances, lawn and garden products and electronics. 17 dealer stores added in 1999 bring the total to 110. Plans are to open another 15 dealer stores in 2000.

Furniture & Appliances Stores

'Offering one of the largest selections of furniture in Canada.'

Sears sells more furniture than any other retailer in Canada. Sears has 25 free-standing furniture stores, 18 of which include major appliances, with 10 more planned for 2000.



Sears Outlet Stores

'Sears quality at Outlet prices.'

Sears has 12 Outlet Stores, featuring an average 80,000 sq. ft. of customer friendly shopping environment. Outlets offer in-season clearance merchandise and promise to be '...Off Price Every Day!!'



AND MORE...

Sears HomeCentral Sears offers the broadest range of home repair, maintenance and renovation services of any retailer in Canada, now available 24 hours a day at 1-800-4-MY-HOME. There are three Sears HomeCentral showrooms, two in Toronto and one in Montreal.

Sears Brand Central As the dominant force in the major appliances market in Canada, Sears Brand Central offers a unique selection supported by a 1,300-product website.

Sears Card With more than 8.9 million cardholders, this is the largest single-issue credit card in Canada.

Sears Club With more than 8 million members, this is the most broadly based customer rewards program in Canada. More than 70% of Canadian households are Sears Club members.

Sears Travel This is one of the largest travel agencies in Canada, a trusted source for Canadian travellers.

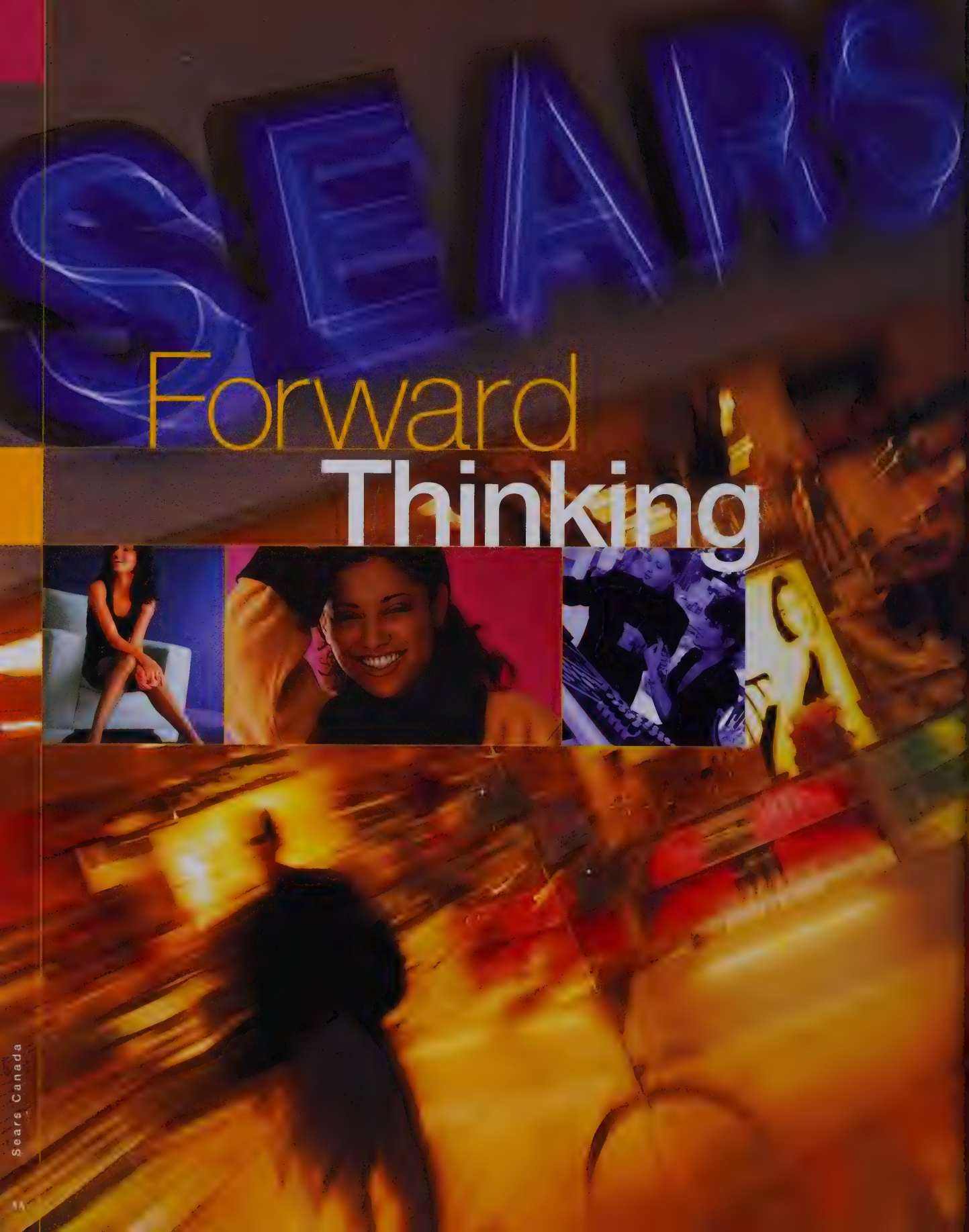
Sears Auto Centres We service our customers in 67 Auto Centres across the country.

Sears Specialty Services Everything from hair cutting to driver training, Sears has the largest selection of licensed services of any retailer in Canada.

SearsConnect Program Sears is the number one reseller of long distance telephone services in Canada.

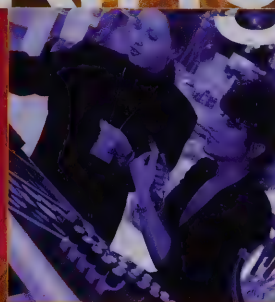
We Service What We Sell Sears selection is backed by the largest parts and service operation in Canada with 2,400 technicians.





SENIORS

Forward Thinking





Sears is the only Full-Line Department Store in Canada

At the end of 1999, Sears had 110 department stores across the country. Sears continued with its aggressive department store renovation program, part of a multi-year, multi-million dollar plan to offer consumers more selection, service and convenience. For the past three years, Sears has been removing furniture, but not appliances, from selected department stores and building free-standing stores that offer a dramatically expanded selection of furniture and home decor accessories, and our unique selection of major appliances. The freed-up space in the department stores is redesigned to create more engaging presentations of a broadened selection of Sears brand and national brand name fashion apparel, and the latest fashions for the home.

In 1999, Sears completed major renovations in six department stores: St. Bruno, Repentigny and Granby, Quebec; Erin Mills, Ontario; Calgary and Edmonton, Alberta. In Kingston, Ontario, the store was relocated to a new store in a different mall. The 248,000 square foot store in Edmonton underwent renovations with some unique qualities, which included transforming the entire 3rd floor into an innovative furniture and appliances store-within-a-store presentation. Minor renovations enhanced department stores in Saint John and Fredericton, New Brunswick; St. John's, Newfoundland; Owen Sound, Peterborough, Belleville and Ottawa, Ontario; Regina, Saskatchewan; and Chilliwack, British Columbia. In addition, Sears opened a new store in Abbotsford, British Columbia.

New Lease on Life

Sears acquired the leases of 12 former suburban Eaton's stores, which will be converted to Sears stores in 2000. A number of these stores give Sears the opportunity to address new markets, including Sherway Gardens in Toronto and Westmount Shopping Centre in London, Ontario; Brentwood Mall in Burnaby, B.C.; Les Galeries de la Capitale in Quebec City, Quebec; St. Vital Centre in Winnipeg, Manitoba; and Southcentre Mall in Calgary, Alberta. Sears will move into larger, former Eaton's locations from its existing stores in the same market in Scarborough, Ontario; Edmonton, Alberta and Halifax, Nova Scotia. A new Sears will open in Guildford Town Centre, Surrey, British Columbia. The Eaton's store in Orchard Park, Kelowna, British Columbia, will be converted to a Sears Furniture and Appliances Store and the Don Mills Centre store in North York, Ontario will become a Sears Outlet Store (see page 34).

Eaton's

A New Banner for Sears

On December 30, 1999, for a purchase price of \$60 million in cash and \$20 million contingent upon realization of tax losses, Sears acquired all of the outstanding common shares, the name, brands and 16 stores of The T. Eaton Company Limited. Under separate arrangements with landlords, Sears will also lease three additional Eaton's locations. See page 33 for details.

With key retail locations in Toronto, Ottawa, Winnipeg, Calgary, Vancouver and Victoria, this acquisition will provide a new downtown department store channel for Sears and up to 3,500 retail jobs across Canada.

"We believe that after 130 years of operation in the Canadian market, the Eaton's brand has considerable equity," says Rick Sorby, Executive Vice-President, Marketing. "The Eaton's name has a strong connection with the consumer."

A New Beginning for an Old Tradition

After closing for a period of renovations and re-positioning, a number of stores will reopen under the Eaton's banner in 2000. They will be supported by Sears logistics and distribution systems, and a new Eaton's catalogue and website. Sears plans to ensure that Eaton's maintains its own personality, its own brand and position in order to address the higher-end traditional downtown department store customer, without compromising the solid mid-market position of its Sears brand in suburban markets.

A new Eaton's credit card, to be launched in 2000, will enhance the Eaton's brand.





Growth is in the Cards

In 1999, the Company acquired a record 928,295 new Sears Card accounts, bringing Sears Club membership to over eight million.



“We can now open a new account in less than 20 seconds,” says Ray Bird, Senior Vice-President, Credit.

“Our focus this year has been on acquiring and installing new technology that enhances customer convenience, reduces operating expenses and makes the process of opening new accounts easier for our associates. A new software program, installed in our Credit Centrals, has significantly reduced approval time for new Sears Card applications submitted at point-of-sale in our stores. We can now process approvals almost instantly and open a new account for a customer in less than 20 seconds.”

“We can also automatically increase credit limits at point-of-sale for eligible Sears Card holders. This is just one of the benefits of a new portfolio management software system installed to monitor and adjust lines of credit at time of purchase or billing.”

New Alliances and Initiatives

New alliances for the Sears Card in 1999 included Bell Mobility, Bell World, AMJ Campbell Van Lines, All-Purpose Realty, Sympatico and Sears Club Presents Première Box Office. An exciting new addition was Canadian Airlines. This alliance adds value to Sears Club members in a different way, by allowing them the option of converting their Sears Club points to Canadian Plus points. In 2000, Sears will continue to focus on value-added products and services that will enhance the Sears Card shopping experience in all Sears channels. For example, some initiatives include offering bonus Sears Club points for shopping on the Internet and giving customers the ability to open a Sears account online.



At Home with the Future

"The power of Sears is that we
can leverage each of our
channels to the benefit of all
our other channels."

— Brent Hollister, Executive Vice-President,
Sales and Service

Sears was one of Canada's first retailers with an Internet presence in 1996. Building on its continued and dramatic success, Sears redesigned, expanded and relaunched its website in 1999. Customers can enjoy easy access to merchandise and information and communicate via an e-mail channel that saw 68% of e-mail answered within 30 minutes in 1999. To reflect the growing importance of Sears online presence, the Vice-Presidents of Catalogue and Catalogue Marketing became Vice-Presidents, Online Sales and Online Merchandising, respectively.

Customers Get Interactive Like Never Before

In May 1999, Sears introduced real-time catalogue ordering, which enables online shoppers to place orders and receive immediate order confirmation and a delivery promise date. Sears launched its Christmas Wish Book online in October 1999 – the first general merchandise catalogue in Canada to be available online, with an impressive 10,000 products. Bonus Sears Club points were awarded for shopping online. Customers could shop with confidence, knowing that Sears proven catalogue fulfillment systems would guarantee on-time delivery and customer satisfaction.

Sears Brand Central site launched the largest appliance offering in Canada, with more than 1,300 products from the most-wanted brands in 12 categories, including ranges, refrigerators, dishwashers, and microwaves. Sears Surplus Shop, an online outlet store that began with just 25 items in 1998, grew to over 200 items in 1999 and continues to expand. Sears Gift Registry was added, allowing customers to register online for gifts for special occasions such as weddings and baby showers. Eaton's will go online in 2000 and will be supported by Sears existing infrastructure.

Catalogue Creates Greater Connectivity

Sears is the largest catalogue retailer in Canada with more than 2,000 pick-up locations, and the sixth largest direct-to-consumer merchandise online/catalogue merchant in North America. Sears handles in excess of 22 million orders on an annual basis and had 4 million active catalogue customers in 1999, a 6% increase over the previous year. The Company made continuous improvements in lowering its cost per order for the sixth year in a row, and for the fourth year in a row, achieved double-digit sales increases.



The Right Merchandise at the Right Price

Sears increased the number of catalogues issued by 44% and the number of catalogue pages by 38% in the last three years. "Our improved list management allows us to put more of what consumers want in our catalogues and target it to the customers who use our catalogues the most," explains Garry Smith, Vice-President, Online Merchandising. "We also understand that the foundation to growing sales is to have the right merchandise at the right price. We continued developing our catalogue merchandise mix strategy with low opening price points to match the local competition, national brands and an incomparable size selection. It's a strategy that helps Sears be more responsive to customers' needs."



"Sears has gone off-mall to vastly expand the selection it can offer customers, beyond what it could possibly present in its mall format, ..."

- Ajit Khanna, Vice-President,
Off-Mall Sales



Getting Closer to Home

Off-Mall Strategy is on Target

“By going off-mall, we are able to bring a wider selection closer to where people live,” explains Ajit Khanna, Vice-President, Off-Mall Sales.

Furniture, Appliances and More

Building on the strategy to transfer furniture from its mall-based department stores to massive, free-standing stores, in 1999 Sears opened a new furniture store in St. Bruno, Quebec and four furniture and appliances stores in Kingston, Ottawa, and Belleville, Ontario and Halifax, Nova Scotia. Three existing stores were expanded: the store in Kitchener, Ontario was relocated to add Sears Brand Central appliances; in Mississauga, Ontario the store was relocated to add Sears Brand Central and a Sears HomeCentral showroom; and the Laval, Quebec store was expanded to include a Sears HomeCentral showroom. By the end of 1999, Sears had 25 of these free-standing stores.

Sears Opens its 110th Dealer Store

Since the first Sears Dealer Store opened in Pembroke, Ontario in August 1994, Sears has opened a Dealer Store in every province and the Yukon Territory, offering the advantages of hometown service and Sears national selection. In 1999, Sears added 17 Dealer Stores, bringing the total to 110. The Company plans to expand to 125 stores in 2000. The first Company-owned Dealer Store was opened in Mississauga, Ontario, and is being used to train dealers to run these specialty stores. Following a successful pilot in 1998 in Penticton, British Columbia, furniture was added to the Dealer Store in Fort McMurray, Alberta in 1999. This expanded concept is planned for five additional Dealer Stores in 2000.

1-800-4-MY-HOME



Sears Floor Covering Centres: the Newest Off-Mall Format

The Company launched Sears Floor Covering Centres in 1999, opening 15 stores under independent local ownership in Ontario, British Columbia, Alberta, and Saskatchewan. Sears brings its procurement, marketing and operating capabilities to the independent store operator, while Sears benefits from the market presence and reputation of a local merchant. Sears anticipates opening 150 centres within five years.

Largest Outlet Store Ever

Based on its success since opening in late 1998, Sears new format Outlet Store in Deerfoot Mall, Calgary will be expanded to double its current size. To be completed in the early spring, it will represent the largest of Sears 12 Outlet Stores in Canada. Fulfilling its mandate to be '...Off Price Every Day!!', these Outlet Stores offer in-season clearance of a broad assortment of value-priced catalogue and retail surplus merchandise, including furniture and home fashions, brand name major appliances and national and private brand name fashion apparel.



Sears HomeCentral Covers all the Bases

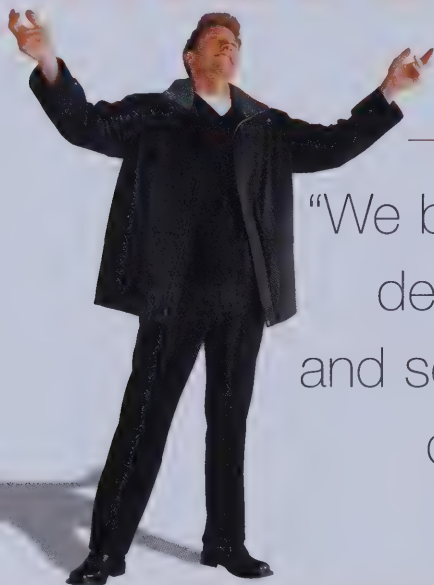
Building on the success of the opening of the first Sears HomeCentral showroom in Markham, Ontario in 1998 – a one-stop solution for home renovations, maintenance and repairs through one easy phone number – Sears opened two new showrooms in 1999 in the newly expanded Mississauga, Ontario and Laval, Quebec furniture and appliances stores. A fourth showroom is planned to open in Brossard, Quebec in early 2000.

Sears continued to increase its share of the home services business and experienced particular strength in penetrating the heating, ventilation and air conditioning market, doors and windows, and gas fireplaces. Sears will continue to develop the showroom concept over time as an important part of the shopping experience for home design, decor and renovation.

Sears launched its first offering of residential natural gas in Ottawa, Ontario in conjunction with TransCanada Pipelines Limited through Sears HomeCentral. Larry Moore, Vice-President, Service Sales, explains the rationale for offering natural gas: “As gas and electricity become deregulated nationally, Sears plans to build the infrastructure of contractors needed to service this industry. Our goal is to sell gas as a commodity, and then, maintain, repair and supply the associated products and services such as heating and ventilation, duct cleaning, water heaters, furnaces, central air conditioning, air quality products and appliances.”

In 1999, Sears expanded its repair services to include major brand appliances regardless of where they were purchased. Sears relocated its national parts fulfillment operation to its Belleville, Ontario facility to leverage the Company’s catalogue distribution capabilities.

Merchandising with Vision



"We believe we must be passionate about developing customer-focused products and services which are so compelling they define Sears and its desired image in the marketplace."

– Bill Turner, Executive Vice-President,
Merchandising and Logistics.

"In order to excel, we have developed closer, deeper partnerships with selected suppliers who share our vision and commitment to growth," explains Bill Turner.

The Product of Leadership

In 1999, the Company launched a new line of Easy Living Plus paint, aerosol paint and brushes. A new line of Kenmore water heaters and food waste disposers with expanded warranties was also introduced. Bob Vila, host of television's 'Bob Vila's Home Again' show, became the spokesman for Craftsman in Canada, adding further to the brand's credibility with the serious home workshop customer. A new exclusive Sears Companion brand of power tools was introduced to enhance the existing assortment of products at the opening price point. The Company issued its biggest tool book ever, the Sears 1999 Craftsman Tool catalogue. Building on its record of selling more treadmills than any other retailer in Canada, the Company launched a new line of fitness club-quality treadmills under Sears Free Spirit brand.

Fashion News

On the fashion front in 1999, Roots merchandise was offered for the first time in the Christmas catalogue, and Anne Weyburn fashions from the famous French LaRedoute catalogue were also launched in Sears catalogue. An exclusive Pierre Cardin men's sportswear collection was added, as were new prestige fragrance brands such as Roots For Her, Emporio Armani, Gucci Envy, and Hypnotique Poison by Christian Dior. Sears stores across the country featured an exhibit of Bob Mackie one-of-a-kind haute couture gowns. Jessica, Sears private label hosiery collection, was expanded and relaunched. Sears Whole Home brand continued to offer customers virtually everything they need to decorate their home with new, fully coordinated offerings. In 2000, Sears plans to start offering upscale national brands through its new Eaton's channel.

"Huge growth can be a massive problem if you don't have the infrastructure and the courage to invest in the future. A company that is committed to growth will always invest in growth and be ready to capitalize on future opportunities."

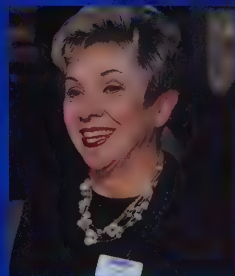
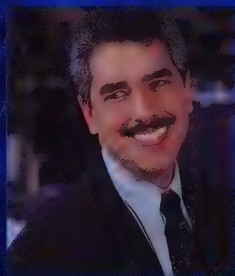
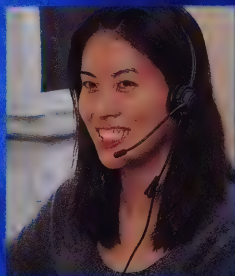
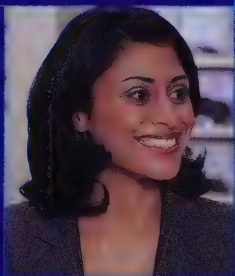
– Bill Turner.



In 1999, Sears broke ground on its two massive new distribution centres located in Vaughan, Ontario and Calgary, Alberta. These facilities are being built to consolidate Sears logistics operations and to accommodate the Company's anticipated future growth. As the Company had the vision to build ten years growth capability into these facilities, Sears will be ready to accommodate the needs of its newly acquired Eaton's operation, which was not on the horizon when the projects were initiated.

During the year, Sears continued to convert more of its indirect imports to direct buys for greater profitability. Sears Canada has a strong, clearly defined supplier code of ethics, and will not accept merchandise from vendors who engage in unfair labour practices. "We are committed to dealing only with reliable, reputable suppliers who share our commitment to the highest ethical standards," says Robert Kitson, Vice-President, International Buying.





"My vision for the future includes a strong commitment and sense of responsibility towards our people. I want them to feel that their contribution is valued, that it's important and appreciated."

— Paul Walters, Chairman & Chief Executive Officer

A Great Place to Work makes Sears a Great Place to Shop

The Sears Associate Satisfaction Index (ASI) improved in 1999. Sears Customer Loyalty Index also improved over previous years. The connection? Associates who care about satisfying Sears customers and have a positive connection to the Company are responsible for improving customer satisfaction and loyalty.

Training, Support and Recognition

By 1999, over 16,000 department store associates completed customer service training programs. Sears continued to focus on specialized training through such venues as Whole Home University and the Dealer Training Store. Sears created the new National Workforce Development team, whose task is to assess training needs and develop the strategy for in-store training. Sears then added 'Educators' to each store to implement the new programs. In addition, Sears recognized the efforts of its associates through a Customer Service Pays Off contest, which awarded more than \$40,000 and recognized hundreds of associates across the country for their exceptional efforts in serving and satisfying customers.

Passport to Learning

Through its job posting program, associates can explore career opportunities in all areas of the Company. "Over the past few years we've been developing methods to assist our associates in taking the responsibility for development of their own career growth," says Barb Duffy, Senior Vice-President, Human Resources. As part of this self-directed learning strategy, Your Learning Passport (YLP), continued to be enhanced to provide associates with the

learning materials which enable them to develop the skills required to be more successful. More than 18,000 requests for these materials were processed, reflecting the importance of this program to Sears associates.

Ideas at Work

Sears introduced Ideas at Work in its department stores, a program that has proven successful in the catalogue centres. This program, which encourages associates to submit ideas for improvement in their own unit, resulted in over 20,000 ideas being implemented in the department store environment. "There is great value in listening carefully to associates, and in respecting and implementing their ideas," explains Ethel Taylor, Vice-President, Retail. "We are able to identify the best ideas within the Company and share the information company-wide."

To improve the communication process, a new magazine, 'Your Sears', was introduced and mailed directly to the home of each associate. A retiree newsletter was also developed to keep this important group up-to-date on what's happening at Sears and any new legislation that might affect them.

In 1999, a key initiative in building a 'Winning Organization' was the implementation of an Associate Assistance Program (AAP), a confidential and free counselling program for all associates and their families. This program provides valuable assistance, can improve associate productivity, morale, and ultimately, customer relations. As part of its commitment to provide a safe work environment, Sears also continued to expand its associate awareness training relating to Workplace Harassment and Violence in the Workplace.

Interactive in the Communities We Serve

"One of the most important ways Sears extends and enhances our relationship with all our customers beyond our shopping channels is to support programs that help improve the quality of life for families in the communities we serve."

– John Menchella, National Director, Strategic Marketing.

Committed to Supporting Young Futures

Throughout 1999, Sears and its associates focused on helping local charity partners coast to coast through Sears Young Futures Program. The program, dedicated to promoting the positive development of children and youth in Canada, resulted in over \$2 million being contributed through local and national initiatives.

In its fifth year supporting Canada's largest literacy program, Sears helped present Ben Wicks' latest booklet, 'Born to Read and Surf', to two million children. Sears continued its commitment to the Computers for Schools program and has assisted in placing over 180,000 computers into schools across the country. In August, Sears Young Futures Program 'Clothing Drive for Kids' encouraged the donation of used clothing. At Christmas, the sale of 'Twinkles', a bean bag toy reindeer, raised over \$250,000 for local Sears Young Futures Program charity partners. A full-size Twinkles visited hospitals across the country and donated 10,000 little Twinkles for children who were in hospital over the holiday season. Sears also launched its 'Tree of Hope' program to provide gifts to needy children at Christmas.

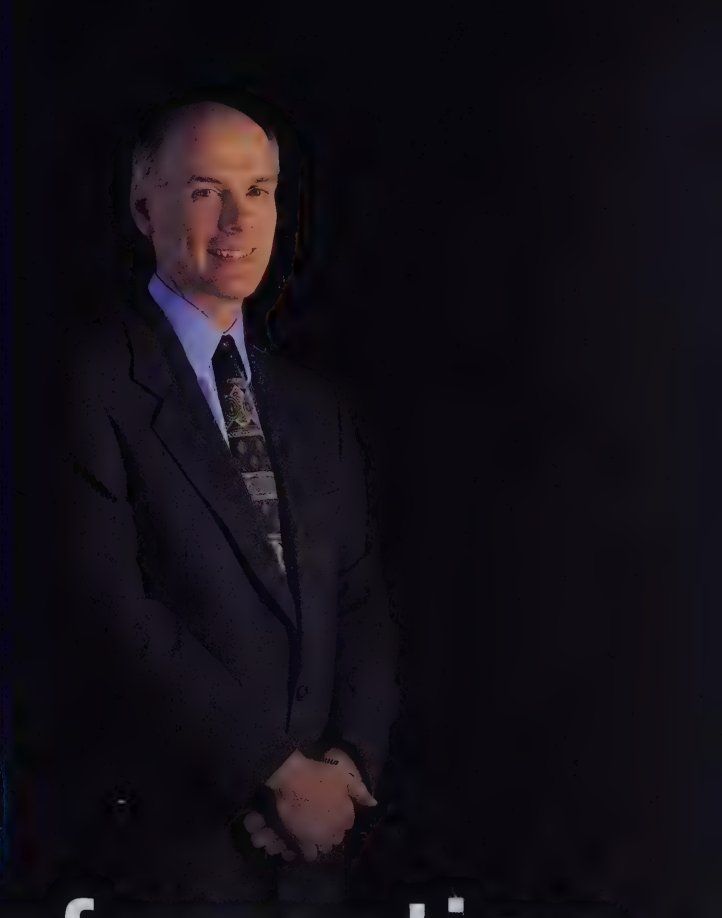


Canadian swimmer Joanne Malar, winner of six gold medals on the 1999 World Cup circuit, was named national spokesperson for Sears Young Futures Program and was highlighted in Sears 1999 Fall and Winter catalogue. Additionally, The Canadian Cancer Society honoured Sears Canada for its role in establishing and supporting the national Cancer Information Service telephone line in Regina, Saskatchewan. Our associates also raised almost \$1 million through their Charitable Fund Campaign for associate-designated charities.

Sears Sets the Stage for Fun

In 1999, to reinforce the Company's status as a relevant and contemporary retailer, Sears acquired title sponsorship of The Sears Theatre at the Air Canada Centre, Toronto, Ontario, a world-class venue for upscale concerts and premiere events. The Company also announced a new four-year association with the Toronto Maple Leafs hockey team and renewed its founding sponsorship with the Toronto Raptors basketball team. Sears partnered with Sears, Roebuck and Co. to sponsor the Canadian leg of the Backstreet Boys 'Into the Millennium Tour'. Sears was a significant supporter of the only major Ladies Professional Golf Association event played in Canada, the 1999 du Maurier Classic, held in Calgary, Alberta. For the second year in a row, 'The Sears Figure Skating Open', a nationally-televised competition, showcased three generations of Canadian male skating champions. The 'Sears I Can Swim! Program', a revolutionary swimming program designed for people of all ages and abilities, was launched with a cross-country tour featuring Canadian National Swim Team members and Olympic-hopeful swimmers.



A man in a dark suit, white shirt, and patterned tie stands with his hands clasped in front of him. He is smiling slightly. To his left is a large, stylized number '1999' in a blue, glowing font. The background is dark with some faint, glowing lines and numbers, suggesting a financial or technological theme.

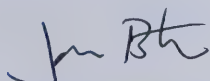
1999

Financial Information

MD&A and Financial Highlights

1999 was another record year for Sears Canada. Total revenues increased by 11.9%, and growth in merchandising revenues exceeded our goal of 2x the market growth rate as Sears continued to capture market share during the year. This increase in revenues contributed to a substantial increase in net earnings for 1999; net earnings increased by 36.3% to \$199.6 million.

As well, strategic investments made this year, such as the acquisition of key Eaton's assets, the continued renovation and expansion of the Company's merchandising floor space, and the construction of two new state of the art distribution facilities position Sears to take advantage of opportunities to grow revenues and earnings in the future.

A handwritten signature in black ink, appearing to read 'John Butcher'.

John T. Butcher

Executive Vice-President and Chief Financial Officer

Eleven Year Summary¹

Fiscal Year	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Results for the Year (in millions)											
Total revenues²	\$ 6,131	\$ 5,481	\$ 5,102	\$ 4,462	\$ 4,332	\$ 4,393	\$ 4,315	\$ 4,309	\$ 4,403	\$ 4,908	\$ 4,853
Depreciation and amortization	113	96	78	78	74	67	69	70	56	55	48
Earnings (loss) before unusual items and income taxes	345	269	215	70	43	88	15	(101)	(31)	70	186
Unusual items gain (loss)	0	0	0	(45)	(21)	(5)	(5)	(46)	(8)	(31)	0
Earnings (loss) before income taxes	345	269	215	25	22	83	10	(147)	(39)	39	186
Income taxes (recovery)	145	123	99	16	10	38	6	(56)	(10)	19	83
Net earnings (loss)	200	146	116	9	12	45	4	(91)	(29)	21	106
Dividends declared	26	25	25	23	23	23	23	21	20	20	21
Capital expenditures	231	142	160	63	76	60	37	55	235	204	116

Year End Position (in millions)

Accounts receivable	\$ 1,070	\$ 1,100	\$ 1,225	\$ 1,033	\$ 926	\$ 1,324	\$ 1,101	\$ 909	\$ 1,090	\$ 1,877	\$ 1,784
Inventories ³	814	716	624	476	492	541	545	611	676	647	791
Net capital assets	984	868	825	744	763	800	813	941	997	803	665
Total assets	3,546	3,198	3,007	2,734	2,554	2,949	2,746	2,796	3,069	3,581	3,512
Working capital	681	898	971	741	661	1,016	888	885	1,112	1,486	1,451
Debt	686	844	848	817	789	1,253	947	1,063	1,245	1,362	1,185
Shareholders' equity	1,346	1,164	1,042	949	856	867	845	863	900	948	970

Per Share of Capital Stock (in dollars)

Net earnings (loss)	\$ 1.88	\$ 1.38	\$ 1.10	\$ 0.09	\$ 0.13	\$ 0.47	\$ 0.05	\$ (1.04)	\$ (0.34)	\$ 0.25	\$ 1.23
Dividends declared	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
Shareholders' equity	12.67	10.98	9.84	8.98	9.02	9.13	8.90	9.10	10.67	11.25	11.26

Financial Ratios

Return on average

shareholders' equity (%)	15.9	13.3	11.7	1.0	1.4	5.2	0.5	(10.3)	(3.1)	2.2	11.4
Current ratio	1.4	1.7	1.9	1.7	1.7	2.0	2.0	2.1	2.4	2.3	2.1
Return on total revenues (%) ²	3.3	2.7	2.3	0.2	0.3	1.0	0.1	(2.1)	(0.7)	0.4	2.2
Debt/Equity ratio	34/66	42/58	45/55	46/54	48/52	59/41	58/42	59/41	61/39	67/33	66/34
Pre-tax margin (%) ²	5.6	4.9	4.2	0.6	0.5	1.9	0.2	(3.4)	(0.9)	0.8	3.8

Number of Selling Units (Excluding Eaton's Locations Acquired)⁴

Full-line department stores	110	109	110	110	110	110	110	109	106	97	92
Furniture stores	25	20	8	4	1	0	0	0	0	0	0
Outlet stores	12	12	8	9	10	11	12	13	15	18	17
Dealer stores	110	93	79	60	19	4	0	0	0	0	0
Catalogue selling locations	2,005	1,898	1,752	1,746	1,623	1,542	1,483	1,579	1,701	1,701	1,708

1 Certain amounts have been restated to reflect accounting changes related to the consolidation of the Company's proportionate share of the assets, liabilities, revenues and expenses of real estate joint ventures as recommended by the Canadian Institute of Chartered Accountants. The change in policy, effective in 1995, has been applied retroactively.

2 Beginning in January, 1999, in order to be more in line with industry practices, the Company elected to report certain activities as revenues, whereas these had previously been reported as recoveries against operating expenses. These activities include travel sales and licensed department sales within the full-line stores, as well as other miscellaneous revenues. Prior period results have been restated to reflect this change.

3 Certain items have been reclassified to conform with the current year's presentation.

4 Refer to the section "Acquisition of Eaton's" on page 33.

Management's Discussion and Analysis

Sears is Canada's largest single full-line retailer of general merchandise and home-related services, with department and specialty stores nationwide, complemented by Canada's only general merchandise catalogue, and a comprehensive website. The Company emphasizes quality, value, and service in appealing to a broad cross-section of Canadian consumers.

The Company's vision is to be Canada's most successful retailer by providing customers with total shopping satisfaction, associates with opportunities for career advancement and personal growth, and shareholders with superior returns on their investment.

OVERVIEW OF CONSOLIDATED RESULTS

For purposes of this discussion, "Sears" or "the Company" refers to Sears Canada Inc. and its subsidiaries together with the Company's proportionate share of the assets, liabilities, revenues and expenses of joint venture interests in shopping centres.

The 1999 fiscal year refers to the 52 week period ended January 1, 2000 and comparatively, the 1998 fiscal year refers to the 52 week period ended January 2, 1999.

Beginning January 3, 1999, in order to be more in line with industry practices, the Company elected to report certain activities as revenues, whereas these had previously been reported as recoveries against operating expenses. These activities include travel sales and licensed department sales within full-line stores, as well as other miscellaneous revenues. Net earnings are not affected by this change. Prior period results have been restated to reflect this change.

The following table summarizes the Company's operating results for 1999 and 1998.

(in millions, except per share amounts)	1999	1998
Total revenues	\$ 6,131.2	\$ 5,481.4
Earnings before interest and income taxes	416.9	354.3
Interest expense	72.3	85.6
Earnings before income taxes	344.6	268.7
Income taxes	145.0	122.3
Net earnings	\$ 199.6	\$ 146.4
Earnings per share	\$ 1.88	\$ 1.38

Total revenues increased in 1999 by \$649.8 million or 11.9% over 1998 due primarily to strong growth in merchandising revenues.

In 1999, Sears continued to implement strategic growth initiatives intended to contribute to the achievement of the Company's key imperatives. Merchandising revenues grew at more than twice the market growth rate this year, and merchandising earnings before interest and income taxes rose to 4.8% of revenues, an improvement of 100 basis points over 1998. During the year, the Company completed renovations to 12 full-line department stores and opened one new full-line department store, five new Sears Furniture Stores (four of which feature major appliances), and 18 dealer stores. As well, during the year, the Company expanded its network of catalogue selling locations to 2,005 and enhanced its website offerings to online customers.

The Company's earnings before income taxes were \$344.6 million in 1999, a 28.2% increase over 1998 earnings of \$268.7 million. Strong growth in the Company's total revenues contributed to a substantial increase in net earnings.

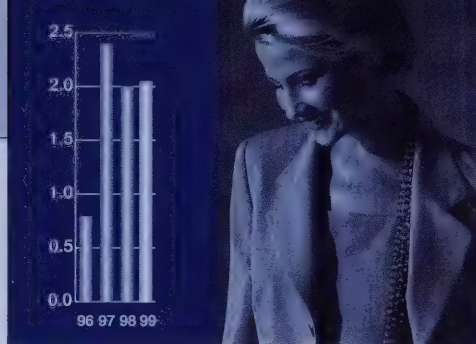
Number of Associates

	1999	1998
Full-time associates	10,971	10,073
Part-time associates	35,136	31,508
Total associates	46,107	41,581

The total number of associates increased by 10.9% in 1999, due primarily to growth in the Company's merchandising operations.

Merchandising Revenue Growth vs. Market Growth Rate

(Goal – 2x Market Growth Rate)



ACQUISITION OF EATON'S

On December 30, 1999, the plan of arrangement of The T. Eaton Company Limited ("Eaton's") was implemented pursuant to the Companies' Creditors Arrangement Act ("CCAA") and the Ontario Business Corporations Act. In accordance with the plan, Sears Canada Inc. acquired all of the common shares of Eaton's. The acquisition included 16 Eaton's store locations, the "Eaton's" name, and selected other assets, including trademarks and other intellectual property, the Eaton's website, and Eaton's tax losses. As part of the plan, all other assets of Eaton's not included in the acquisition by the Company have been disposed of to third parties or transferred to a newly incorporated company which will be liquidated by the court-appointed liquidator pursuant to the plan. Effective December 30, 1999, Sears and Eaton's amalgamated and were continued as Sears Canada Inc. The common shares of Eaton's have been delisted from The Toronto Stock Exchange.

The total cost of the acquisition includes professional fees, store closure expenses, non-capital expenses incurred prior to the re-opening of the acquired Eaton's store locations, and transaction and other costs. Management's evaluation of these costs, currently estimated at \$162 million, has not yet been fully completed. This estimate may change once management has completed its evaluation. Included in this estimate is \$20 million, which is payable to former Eaton's shareholders, contingent upon realization of the Eaton's tax losses.

Under Canadian accounting rules, the total cost of the acquisition, estimated at \$162 million, has been recorded as a future income tax asset on the Company's balance sheet, and will be utilized to reduce future taxes payable. Tax losses realized in excess of acquisition costs, if any, will be recognized in the income statement as reductions to the tax expense.

In the event that the utilization of tax losses is disallowed, tax reductions claimed in prior periods will become payable. These amounts, and any related amounts remaining in the future income tax asset, will be recorded as tax expense in the then current year.

In addition to the 16 Eaton's stores included in the acquisition agreement, the Company has also, under separate arrangements with the respective landlords, leased three additional store locations formerly occupied by Eaton's. Of the 19 store locations acquired, the Company plans to convert 10 locations to Sears full-line department stores, one location to a Sears Furniture Store, one location to an outlet store, and to continue to operate seven locations under the Eaton's banner. In connection with the acquisition, three existing Sears stores are planned to be closed due to their close proximity to the acquired stores.

Six of the acquired store locations are currently in operation; the remaining locations are temporarily closed for renovations. Of the remaining store locations, those units being converted to the Sears banner are scheduled to open during the spring and summer of 2000. The store locations to be operated under the Eaton's banner will also undergo renovation, and are planned to open in the fall of 2000. All six stores currently in operation are planned to remain open while renovations take place. The Company plans to spend approximately \$177 million to renovate these stores.

The strategic acquisition of key Eaton's store locations will not only allow the Company to expand the Sears full-line department store base in suburban markets, but will also enable Sears to enter downtown markets under the Eaton's banner in order to capture new revenue opportunities. The Eaton's department stores are planned to be destination stores, emphasizing quality, style, choice, and personal service in a contemporary store environment.

The following table summarizes the Eaton's locations acquired, the format and banner under which Sears plans to operate each store, and the net addition to the Company's merchandising gross floor area.

Eaton's Locations – Merchandising Gross Floor Area

(square feet – in thousands)

19 Former Eaton's Locations Planned to Open as:

Sears Full-Line Department Stores

Halifax Shopping Centre, Halifax	163.0
Les Galeries de la Capitale, Quebec City	185.0
Scarborough Town Centre, Scarborough	240.0
Sherway Gardens, Etobicoke	240.0
Westmount Shopping Centre, London	122.8
St. Vital Centre, Winnipeg	133.9
Southgate Shopping Centre, Edmonton	264.7
Southcentre Mall, Calgary	240.0
Brentwood Mall, Burnaby	176.1
Guildford Town Centre, Surrey	133.0

Sears Furniture Stores

Orchard Park, Kelowna	48.0
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Sears Outlet Stores

Don Mills Centre, North York	175.0
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Eaton's Department Stores

Rideau Centre, Ottawa	240.0
The Toronto Eaton Centre, Toronto	629.0
Yorkdale Shopping Centre, North York	267.0
Polo Park, Winnipeg	211.8
Calgary Eaton Centre, Calgary	248.5
Pacific Centre, Vancouver	478.0
Victoria Eaton Centre, Victoria	229.3
Total Gross Floor Area Acquired	4,425.1

Existing Sears Full-Line Stores Planned to be Closed:

Scarborough Town Centre, Scarborough	(159.5)
West End Mall, Halifax	(174.3)
Heritage Mall, Edmonton	(151.2)
Total Gross Floor Area to be Closed	(485.0)
Net Additional Gross Floor Area	3,940.1

SEGMENTED BUSINESS ANALYSIS

The Company's operations can be grouped into three major businesses: merchandising, credit, and real estate joint venture operations.

MERCHANDISING OPERATIONS

The merchandising segment includes Sears full-line department store and catalogue operations, Sears Furniture Stores, dealer stores, and outlet stores, as well as the products and services offered under the Sears HomeCentral™ banner and on Sears website www.sears.ca.

Merchandising Operations

(in millions)	1999	1998
Revenues	\$ 5,746.7	\$ 5,109.9
Earnings before interest and income taxes	\$ 277.1	\$ 193.7
Capital employed	\$ 816.1	\$ 735.4

Merchandising Operating Analysis

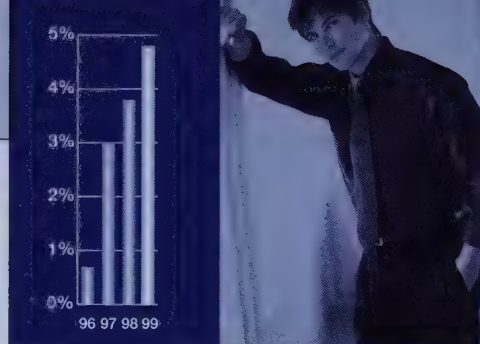
Merchandising revenues were \$5.7 billion in 1999, an increase of 12.5% over 1998. All regions experienced increases in merchandising revenues in 1999.

Merchandising Revenues by Region

(in millions)	1999	% of Total	% of Total Households ¹
Atlantic	\$ 550.8	9.5	7.7
Quebec	1,143.0	19.9	25.8
Ontario	2,422.7	42.2	36.5
Prairies	986.5	17.2	16.3
BC/Yukon/NWT	643.7	11.2	13.7
Total	\$ 5,746.7	100.0	100.0

¹ CompuSearch Estimates, based on Statistics Canada data.

Merchandising EBIT %



Number of Selling Units (Excluding Eaton's Locations Acquired)²

As at January 1, 2000

	Atlantic	Que.	Ont.	Prairies	BC Yukon NWT	Total
Full-Line	11	25	42	19	13	110
Furniture	1	5	16	1	2	25
Outlet	1	1	7	2	1	12
Dealer	17	14	30	24	25	110
Catalogue	325	510	553	441	176	2,005

² Refer to the section "Acquisition of Eaton's" on page 33.

Full-Line Department Stores – 110 department stores ranging in size from 24,500 to 162,000 square feet of selling space.

Furniture Stores – stores ranging in size from 35,000 square feet to 60,000 square feet, featuring an expanded selection of furniture, decorator rugs and, in 18 stores, major appliances.

Outlet Stores – selling returned and surplus merchandise in stores ranging in size from 10,000 square feet to 109,000 square feet.

Dealer Stores – independent, locally operated stores serving smaller population centres, selling home appliances and electronics, as well as lawn and garden furniture, and garden and snow removal equipment.

Catalogue Selling Locations – consist of 1,747 independent catalogue agent locations, plus catalogue selling locations within Sears 110 full-line stores, and selected outlet stores, dealer stores, and Sears Furniture Store locations.

During 1999, the Company opened a full-line department store in Abbotsford, British Columbia, five new Sears Furniture Stores (four of which also offer major appliances), and 18 dealer stores. The dealer store in Abbotsford, British Columbia was closed with the opening of the full-line department store.

Merchandising Gross Floor Area (Excluding Eaton's Locations Acquired)³

(square feet – in millions)	1999	1998
Full-Line	13.7	13.4
Furniture	1.1	0.8
Outlet	0.9	0.9
Total	15.7	15.1
Merchandise service centres:		
Active	7.2	7.1
Subleased or dormant	1.3	1.4
Total merchandise service centres	8.5	8.5

³ Refer to the section "Acquisition of Eaton's" on page 33.

Merchandise service centres include two catalogue order fulfillment facilities and five service centres supporting national merchandising operations.

Recent Merchandising Initiatives

- During the year, 12 full-line department stores were renovated. Major renovations were made to the following stores: St. Bruno, Quebec; Mississauga Erin Mills, Ontario; and Edmonton Kingsway, Alberta. These renovations represent the third year of the Company's ongoing renovation plan, designed to upgrade the stores' presentation in terms of fixtures and lighting, as well as to increase the selling square footage in each store. Sears expanded three full-line department stores: Repentigny and Granby, Quebec; and Calgary Marlborough, Alberta, and relocated its full-line department store in Kingston, Ontario. As a result of these initiatives in 1999, Sears retrofitted more than 567,000 square feet and expanded by or reclaimed more than 211,000 square feet. Over the last three years, the Company has reclaimed, expanded by, or retrofitted over 2.5 million square feet within its full-line stores.
- Sears introduced four new catalogues during 1999: Chairman's Choice, Incredible Savings, Inventory Liquidation, and Still Time To Save. Since 1996, the Company has increased the number of catalogue pages by 38% and catalogue circulation by 44%.

- Sears opened five new Sears Furniture Stores, four of which also offer major appliances, in Halifax, Nova Scotia; St. Bruno, Quebec; and Kingston, Belleville, and Ottawa, Ontario for a national total of 25 stores. During the year, the stores in Kitchener and Mississauga, Ontario were relocated to larger premises. In 2000, Sears plans to open ten new Sears Furniture Stores.
- In 1999, in addition to the existing Sears HomeCentral showroom in Markham, Ontario, two new showrooms were introduced to the Sears Furniture Stores located in Laval, Quebec and Mississauga, Ontario. These showrooms feature home products and services such as windows, door and floor fashions, gas fireplaces, and kitchen and bath vignettes. These products complement the wide assortment of Sears HomeCentral services, such as appliance repairs, parts, heating and cooling services, and carpet cleaning, making Sears a one-stop solution for home products and services. Sears HomeCentral is available to customers through the toll-free telephone numbers: 1-800-4-MY-HOME™ and 1-877-LE-FOYER^{MC}, as well as through representation in 82 Sears full-line department stores. Sears plans to open its fourth Sears HomeCentral showroom in Brossard, Quebec in the spring of 2000.
- Sears Floor Covering Centres were launched in 1999 with the opening of 15 stores in Ontario, Alberta, Saskatchewan, and British Columbia. Sears plans to open an additional 45 Sears Floor Covering Centres during 2000. The Sears Floor Covering Centres combine the local market presence and industry knowledge of independent dealers with the strength and reputation of Sears, and the Sears guarantee. The Sears Floor Covering Centres strengthen the assortment of broadloom and hard floor coverings offered to customers. When coupled with the Sears HomeCentral banner, these stores effectively position Sears to be a leading retailer of home improvement products and services in Canada.
- In 1999, the Company announced plans to open two new National Service Centres, one in Calgary, Alberta and one in Vaughan, Ontario. Both locations will handle distribution of merchandise in a more efficient manner. Four of the Company's current warehouses and two smaller transportation facilities will be consolidated into these two sites by mid-year 2000. The two new facilities will enhance customer service by streamlining distribution and operations, as well as providing capacity for future growth.
- In 1999, Sears opened 18 new dealer stores for a total of 110. The Company plans to open 15 new dealer stores in 2000. Starting in November, 1998, the Company tested the offering of furniture at its dealer store in Penticton, British Columbia. This initiative received a positive response from customers: As a result, in November, 1999, this concept was expanded to Fort McMurray, Alberta, and there are plans to add furniture to an additional five dealer stores in 2000. In order to provide dealers with the skills and knowledge needed to operate a dealer store, Sears offers new dealers an intensive one-week training program, in the Mississauga, Ontario dealer store. The training program provides the Company's new dealers with a solid foundation of Sears operational procedures, and professional selling and product knowledge skills.
- Sears is the first national retailer of general merchandise to offer natural gas in the competitive energy market. The Company, in conjunction with TransCanada Pipelines Limited, announced its intention to offer natural gas services with the launch of a pilot program to Sears customers in Ottawa, Ontario, in December, 1999. TransCanada Pipelines Limited will manage the supply, transportation, and storage of the natural gas. This service complements the products and services that Sears currently offers its customers under the Sears HomeCentral banner. This marks the first step by Sears into the competitive energy market, and supports the Sears HomeCentral strategy of providing all products and services for the home.

Earnings Per Share



- Sears has the advantage of utilizing its existing efficient order and fulfillment capabilities, as well as the trust that consumers have in Sears, to support its website, www.sears.ca. This year, Sears enhanced its website offerings through a number of initiatives:
 - In June, 1999, Sears implemented real-time online order processing with features that automatically confirm the availability of selected merchandise, instantly reserve the item ordered, and provide a delivery promise date.
 - The Sears Gift Registry was added to the Sears website in September, 1999. Customers can create a new registry instantly. Gift items can also be purchased online from an existing registry.
 - The Company introduced Sears Brand Central™ major appliances to its offering of merchandise online in October, 1999. This enhances the ability of the Company to offer an expanded selection to customers. For example, www.sears.ca currently offers over 1,300 appliance choices online. In October, 1999, the Company introduced Web Assist, a software program designed to assist the online shopper. This tool enables online customers to search for their “ideal” appliance based on their individual requirements. This application also offers useful appliance information, and enables the customer to compare the features of different appliances.
 - The 1999 Sears Christmas Wish Book™ was available on the Internet at www.sears.ca beginning in October, 1999. This enabled customers to order any of the 10,000 merchandise items offered online from the 1999 Wish Book®.

Customers responded enthusiastically to Sears new online offerings. The Company experienced significant growth in its volume of online orders from customers during the year, with orders increasing more than seven times over 1998.

CREDIT OPERATIONS

Sears credit operations finance and manage customer charge account receivables generated from the sale of goods and services charged on the Sears Card.

(in millions)	1999	1998
Total service charge revenues	\$ 383.8	\$ 371.3
Less: SCRT ⁴ share of revenues	(73.8)	(65.4)
Net service charge revenues	310.0	305.9
Earnings before interest and income taxes	\$ 102.6	\$ 126.7
Capital employed	\$ 959.8	\$ 1,020.3

⁴ Refer to the section entitled “Securitization of Charge Account Receivables” on page 40.

Credit operations contributed \$102.6 million to the Company’s 1999 consolidated earnings before interest and income taxes, compared to \$126.7 million in fiscal 1998.

Total service charge revenues earned on customer charge account receivables increased by \$12.5 million or 3.4% in 1999. Through its securitization program, the Company securitizes customer charge account receivables in order to obtain a more favourable overall cost of funding. The cost of the funding related to the securitization program is deducted from the total service charge revenues earned on the portfolio. (Refer to the section entitled “Securitization of Charge Account Receivables” on page 40.)

Charge Account Receivables Analysis

(in millions – except average outstanding account balance per customer)	1999	1998
Active customer accounts	4.1	3.9
Average outstanding balance per customer account at year end	\$ 449	\$ 441
Charge account receivables written-off during the year (net of recoveries)	\$ 50.7	\$ 44.4

Net write-offs as a percentage of the monthly average amounts outstanding were 3.2% in 1999 compared to 2.9% in 1998 and 3.2% in 1997. This write-off rate continues to be at the low end of industry norms. The Company maintains a low write-off rate through continued innovation of its portfolio management strategies.

Since October, 1993, Sears has been accepting third party credit cards in addition to the Sears Card. 1998 was the first full year debit cards were accepted in all of the Company's full-line department stores, Sears Furniture Stores, and outlet stores. The chart below details the trend in method of payment.

	1999	1998
Sears Card	62%	62%
Third Party Credit Cards	13	13
Debit Cards	7	5
Cash	18	20
Total	100%	100%

Recent Credit Initiatives

The following initiatives have been directed at increasing usage of the Sears Card:

- Sears introduced software programs to improve the efficiencies in customer interactions relating to the Sears credit card: Automated Strategic Application Processing System (ASAP) and TRIAD, a portfolio management software system. Fully implemented in August, 1999, ASAP reduces the approval time for new Sears Card applications to less than twenty seconds. This improvement contributed to an increase in the number of new Sears Card applications by 21% over 1998. TRIAD automates the authorization system, assists with the management of delinquent accounts, and adjusts lines of credit for customers so that the customer will have the appropriate amount of credit in effect at time of purchase. Installation of TRIAD will be completed in March, 2000.

- In 1999, Sears continued to form alliances with other companies to offer Sears Card holders additional benefits. Sears Card holders can now use their Sears Card to pay for products or services offered by AMJ Campbell Van Lines, All Purpose Realty, Bell Mobility, Bell World, Sympatico, and, in Quebec, Sears Club Presents Premiere Box Office™. In addition, Sears enhanced the value of Sears Club points for customers by offering customers the option of converting their Sears Club points to Canadian Plus Points.
- Sears continues to be the largest single-issue proprietary card issuer in Canada. The number of active customer accounts surpassed four million at the end of 1999. This represents an increase of 6.3% over 1998.

REAL ESTATE JOINT VENTURE OPERATIONS

As at January 1, 2000, the Company held joint venture interests in 19 shopping centres, 17 of which contain a Sears store. The Company has 15% to 50% interests in these joint ventures. Accordingly, the Company carries its proportionate share of the assets, liabilities, revenues and expenses of these joint ventures on its books.

Real Estate Joint Venture Operations

(in millions)	1999	1998
Revenues ⁵	\$ 74.5	\$ 65.6
Earnings before interest and income taxes	\$ 37.2	\$ 33.9
Capital employed	\$ 255.9	\$ 252.5

⁵ Excluded from revenues is the Company's proportionate share of rental revenues earned from full-line stores of Sears Canada Inc. of \$4.5 million (1998 - \$3.7 million).

4 Year Share Performance

(Based on \$100 invested Dec. 29, 1995)



The market value of Sears interest in these properties is estimated to be approximately \$425 million (1998 – \$417 million). It is the Company's policy to have one-third of the properties independently appraised each year, while the appraisals of the remaining two-thirds are reviewed and updated by management. Sears portion of the debt of these properties is \$219.7 million (1998 – \$227.1 million).

OVERVIEW OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

(in millions)	1999	1998
Cash	\$ 148.1	\$ 190.4
Accounts receivable	1,069.9	1,100.4
Inventories	814.3	715.8
Net capital assets	983.6	867.6
Other assets	530.3	323.8
Total assets	\$ 3,546.2	\$ 3,198.0

Total assets increased by \$348.2 million or 10.9% in 1999.

Accounts Receivable

(in millions)	1999	1998
Charge account receivables	\$ 1,822.6	\$ 1,682.5
Less amount securitized	(1,418.7)	(1,087.5)
Net charge account receivables	403.9	595.0
Deferred receivables	668.0	544.5
Less amount securitized	(66.0)	(83.2)
Net deferred receivables	602.0	461.3
Other receivables	64.0	44.1
Total accounts receivable	\$ 1,069.9	\$ 1,100.4

Deferred receivables represent credit sales not yet billed to customers' accounts. These credit sales are billed to the customers' accounts at the end of an interest-free deferral period.

Inventories increased by \$98.5 million in support of the Company's revenue growth initiatives.

Net capital assets increased by \$116.0 million. Capital expenditures totalled \$230.6 million in 1999, of which \$77.1 million was spent on full-line department store renovations and the opening of one new full-line department store and five new Sears Furniture Stores. Depreciation expense for the year was \$113.5 million.

Other assets increased by \$206.5 million due primarily to the estimated \$162 million acquisition cost of Eaton's.

Liabilities

(in millions)	1999	1998
Accounts payable	\$ 809.9	\$ 683.4
Accrued liabilities	452.6	312.4
Long-term obligations due within one year	254.1	163.4
Long-term obligations	431.4	680.5
Other liabilities	251.9	194.0
Total liabilities	\$ 2,199.9	\$ 2,033.7

Total liabilities increased by \$166.2 million or 8.2% in 1999.

Accounts payable increased by \$126.5 million in 1999 primarily due to the growth in inventories.

Accrued liabilities increased by \$140.2 million in 1999 in conjunction with the acquisition of Eaton's.

Including amounts due within one year, long-term obligations decreased by \$158.4 million from \$843.9 million to \$685.5 million due primarily to the maturity of unsecured debentures of the Company in the amount of \$150 million in May 1999.

Liquidity

As at January 1, 2000, the ratio of current assets to current liabilities was 1.4:1 compared to 1.7:1 at the end of 1998. Working capital was \$681.0 million as at January 1, 2000, compared to \$898.5 million as at January 2, 1999.

FINANCING ACTIVITIES

The Company has the flexibility to raise funds through bank borrowings, by issuing equity and corporate debt securities, and through the securitization of charge account receivables.

In 1999, the Company carried out the following significant financing activities:

- On May 18, 1999, the outstanding 11.0% unsecured debentures of Sears Canada Inc. in the amount of \$150 million matured and were repaid.
- During 1999, long-term financing for new capital projects of real estate joint ventures was obtained in the amount of \$2.7 million. In addition, \$13.0 million of joint venture debt matured in 1999, of which \$2.9 million was refinanced.

Securitization of Charge Account Receivables

Sears Acceptance Company Inc. ("Acceptance"), a wholly owned subsidiary of Sears, purchases all Sears Card charge account receivables (including deferred receivables) generated by all merchandise and service sales made on the Sears Card. Through the Company's securitization program, Acceptance sells undivided co-ownership interests in the charge account receivables (excluding deferred receivables) to Sears Canada Receivables Trust (Trust 1) and Sears Canada Receivables Trust – 1992 (Trust 2). In addition, Acceptance sells undivided co-ownership interests in its portfolio of charge account receivables (including deferred receivables) to Sears Canada Receivables Trust – 1996 (Trust 3). Trust 1, Trust 2 and Trust 3 are collectively referred to as SCRT.

As the equity units of these trusts are held by independent parties, the assets and liabilities of SCRT are not reflected in the Company's consolidated financial statements. The cost to the Company of the securitization program is reflected as a reduction in the Company's share of Sears Card service charge revenues.

SCRT is an important financing vehicle which is able to obtain favourable interest rates because of its structure and the high quality of the portfolio of charge account receivables backing its debt. Securitization provides the Company with a diversified source of funds for the operation of its business.

Trust 1 – Trust 1, which was established in 1991, issues short-term commercial paper and subordinated debentures to finance the purchase of undivided co-ownership interests in charge account receivables (excluding deferred receivables).

Trust 2 – Trust 2, which was established in 1993, issues long-term senior and subordinated debentures to finance the purchase of undivided co-ownership interests in charge account receivables (excluding deferred receivables).

Trust 3 – Trust 3, which was established in 1996, finances the purchase of undivided co-ownership interests in Acceptance's portfolio of charge account receivables (including deferred receivables) through drawdowns under revolving senior and subordinated note facilities.

Return on Equity



Summary of SCRT Obligations

(in millions)	1999	1998
Commercial paper	\$ 346.9	\$ 487.3
Senior debt:		
5.34%, due December 16, 2003	150.0	150.0
8.95%, due June 1, 2004	175.0	175.0
5.42%, due December 15, 2004	200.0	—
6.681%, due June 15, 2005	250.0	—
Floating rate, due April 1, 2001	150.0	150.0
Floating rate, due June 30, 2006	102.0	122.7
	1,027.0	597.7
Subordinated debt:		
9.18%, due June 1, 2004	3.9	3.9
Floating rate, due 2001 to 2004	50.5	31.0
Floating rate, due June 30, 2006	1.1	1.3
	55.5	36.2
Accrued liabilities	5.5	5.2
Trust units (floating rate, due 2003 to 2006)	49.8	44.3
Total SCRT obligations	\$ 1,484.7	\$ 1,170.7

Summary of Debt Ratings

	CBRS	DBRS
Sears Canada Inc.		
Unsecured debentures	B++ (High)	BBB (High)
SCRT		
Commercial paper (Trust 1) ⁶	A-1 (High)	R-1 (High)
Senior debentures (Trust 2) ⁶	A++	AAA
Subordinated debentures (Trust 2)	A	A (High)
Senior notes (Trust 3) ⁶	A++	AAA
Subordinated notes (Trust 3)	A+	A

⁶ Highest rating assigned by CBRS Inc. (CBRS) and Dominion Bond Rating Service Limited (DBRS) for this debt category.

Capital Structure

The chart below highlights the improving trend in the debt to equity ratio, due primarily to the reduction of debt in 1999.

(in millions)	1999	% of Total	1998	% of Total
Long-term debt due within one year	\$ 254.1	12.5	\$ 163.4	8.1
Long-term debt	431.4	21.2	680.5	33.9
Total debt	685.5	33.7	843.9	42.0
Shareholders' equity	1,346.3	66.3	1,164.3	58.0
Total capital	\$2,031.8	100.0	\$2,008.2	100.0

On March 24, 1999, the Company announced a normal course issuer bid to purchase up to 5% of its issued and outstanding common shares for cancellation during the 12 month period commencing on March 26, 1999 and expiring on March 25, 2000. The Company has purchased 41,500 common shares for cancellation under the bid as at the date hereof. The Company does not plan to renew the bid for 2000 because of the considerable funding requirements related to the acquisition of Eaton's.

Analysis of Funding Costs

The following table summarizes the Company's total funding costs including the cost of the securitization program:

(in millions)	1999	1998
Interest Costs		
Total debt at end of year	\$ 685.5	\$ 843.9
Average debt for year	743.8	845.5
Interest expense	72.3	85.6
Average rate of debt	9.7%	10.2 %
Securitization Costs		
Amount securitized at end of year	\$ 1,484.7	\$ 1,170.7
Average amount securitized for year	1,271.5	1,056.9
Cost of funding	73.8	65.4
Average rate of securitized funding	5.8%	6.2 %
Total Funding		
Total funding at the end of year	\$ 2,170.2	\$ 2,014.6
Total average funding for year	2,015.3	1,902.4
Total funding costs for year	146.1	151.0
Average rate of total funding	7.3%	8.0 %

Total funding costs for 1999 decreased by \$4.9 million due primarily to lower interest rates applicable to funding obtained by SCRT during the year.

CAPITAL EXPENDITURES

The Company expects to commit approximately \$400 million for capital expenditures in 2000, compared to capital expenditures of \$230.6 million in 1999. Planned expenditures for 2000 include approximately \$177 million for renovations to the 19 Eaton's store locations acquired, and \$33 million for full-line store enhancements and new combination Sears furniture and appliance stores. The balance of the capital expenditures will be spent primarily on information technology, logistics and real estate operations.

ANALYSIS OF TOTAL TAXES

Total taxes increased by \$39.2 million in 1999. Income taxes increased \$22.7 million, commensurate with the increase in earnings before income taxes.

(in millions)	1999	1998
Provincial capital tax	\$ 8.1	\$ 7.1
Property tax	59.8	52.3
Payroll taxes ⁷	80.0	72.0
Total taxes expensed in cost of		
merchandise sold, operating,		
administrative and selling expense	147.9	131.4
Corporate income taxes	145.0	122.3
Total taxes	\$ 292.9	\$ 253.7

⁷ Represents contributions to the Canada and Quebec Pension Plans, Employment Insurance, health care levies and WCB premiums.

RISKS AND UNCERTAINTIES

Eaton's Tax Losses

In the event that the utilization of Eaton's tax losses is disallowed, tax reductions claimed in prior periods will become payable. These amounts, and any related amounts remaining in the future income tax asset, will be recorded as tax expense in the then current year. Refer to the section "Acquisition of Eaton's" on page 33.

Interest Rates

SCRT has financed purchases of undivided co-ownership interests in the portfolio of charge account receivables with the issuance of short-term commercial paper, as well as debt and trust units, some of which are subject to floating interest rates. To reduce the risk associated with fluctuating interest rates, floating-to-fixed interest rate swap transactions in the notional amount of \$250 million (1998 - \$350 million) have been utilized. This brings the Company's fixed-to-floating funding ratio, including securitized funding, to 67/33, which is within its target ratios.

Number of Sears Furniture Stores



Foreign Exchange

The Company's foreign exchange risk is limited to currency fluctuations between the Canadian and U.S. dollar. The Company's forecast for its total requirement of foreign funds in 2000 is approximately U.S. \$350 million. From time to time the Company uses forward contracts to fix the exchange rate on a portion of its expected requirement for U.S. dollars. As at January 1, 2000, there were no foreign exchange contracts outstanding.

Concentration of Credit Risk

The Company's exposure to credit risk relates mainly to customer account receivables. Sears Card customers are a large and diverse group. The average balance per customer at year end was \$449.

Leases

Twenty-one of Sears 110 full-line department stores are Company-owned, one of the 25 Sears Furniture Stores is Company-owned, and one of the 19 Eaton's locations acquired is Company-owned, with the balance held under long-term leases which include favourable renewal options. As a result, the Company's store rental expense is expected to remain stable.

Merchandise Sources

A major aim of the merchandise procurement process is to ensure that Sears, together with its merchandise sources, fulfills its promises and obligations to its customers. Sears will continue to work with its merchandise sources to ensure that they share this commitment.

Sears is confident in its ability to continue providing consumers with high quality merchandise at competitive prices. While the Company purchases most of its consumer goods through Canadian companies, Sears shops the world market to provide its customers with the best value for their dollar.

Year 2000

Sears prepared to meet the Year 2000 challenge over the past four years, as the Company is a significant user of current technologies, making extensive use of technology to interact with third parties, primarily suppliers and customers. A cross-functional team was established to oversee and manage the Sears Year 2000 Project.

Sears Year 2000 Project included identifying and evaluating the Company's systems and applications for Year 2000 capability, determining necessary modifications and replacements, and initiating communication with third parties, including merchandise and non-merchandise suppliers. Remedial action and Year 2000 testing were completed for all applications and programs in 1999.

A cross-functional sub-committee reviewed Sears Business Continuity Plans to address any Year 2000 specific issues or situations, including alternative sourcing and identifying actions to be taken if a critical system or service provider was not Year 2000 ready.

Upon the change in date from 1999 to 2000, Sears experienced no Year 2000 related application or systems failures that have impacted Sears customers, productivity or financial performance. The Sears Year 2000 Project team will continue to monitor the Company's systems and applications, and address future potential issues, if any, that may impact the Company through subsequent month ends, and other key dates.

As at January 1, 2000, \$26.1 million had been spent on personnel and contractors. These costs were expensed as incurred. The total estimated cost for the Year 2000 Project was approximately \$28 million.

Competitive and Economic Environment

Sears believes that the general economic environment will remain positive in 2000, although growth may occur at a slightly slower pace than in 1999. While interest rates are expected to rise modestly in 2000, stronger employment growth combined with rising wages and an anticipated reduction in personal income taxes should contribute to increases in the personal disposable income of Canadians. Such increases should support consumer spending in the near term.

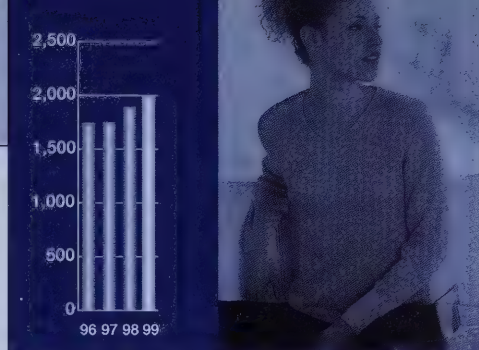
Although significant consolidation has occurred in the Canadian retail industry during the past two years, the retail market remains highly competitive. Sears is well positioned to take advantage of emerging trends in retailing, including those in the areas of specialty stores and services, as well as electronic commerce.

Outlook

Sears continues to position itself to capture a larger share of consumer spending through its aggressive program of store renovations and expansions, and enhanced merchandise assortment and presentation. In addition, the acquisition of Eaton's will allow Sears to provide different merchandise and service selections to consumers who were not previously served under the Company's existing offerings.

By meeting customers' needs in terms of merchandise selection, pricing, store environment, and service, Sears anticipates growth in revenues and profits into the future.

Number of Catalogue Selling Locations



Quarterly Results Unaudited

(in millions, except per share amounts)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1999	1998	1999	1998	1999	1998	1999	1998
Total revenues ¹	\$ 1,259.4	\$ 1,140.2	\$ 1,402.9	\$ 1,273.8	\$ 1,457.0	\$ 1,292.1	\$ 2,011.9	\$ 1,775.3
Earnings before income taxes	\$ 32.3	\$ 15.6	\$ 71.7	\$ 55.4	\$ 64.0	\$ 45.0	\$ 176.6	\$ 152.7
Net earnings	\$ 17.2	\$ 7.5	\$ 39.9	\$ 29.9	\$ 35.3	\$ 24.1	\$ 107.2	\$ 84.9
Earnings per share	\$ 0.16	\$ 0.07	\$ 0.38	\$ 0.28	\$ 0.33	\$ 0.23	\$ 1.01	\$ 0.80

¹ Beginning in January, 1999, in order to be more in line with industry practices, the Company elected to report certain activities as revenues, whereas these had previously been reported as recoveries against operating expenses. These activities include travel sales and licensed department sales within the full-line stores, as well as other miscellaneous revenues. Prior period results have been restated to reflect this change.

Common Share Market Information*

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1999	1998	1999	1998	1999	1998	1999	1998
High	\$ 26.25	\$ 25.75	\$ 33.25	\$ 27.75	\$ 36.50	\$ 29.00	\$ 40.00	\$ 22.05
Low	\$ 18.00	\$ 19.00	\$ 26.00	\$ 24.40	\$ 29.45	\$ 16.90	\$ 30.95	\$ 16.00
Close	\$ 26.25	\$ 24.40	\$ 31.40	\$ 27.70	\$ 34.75	\$ 16.90	\$ 40.00	\$ 18.00
Avg. daily trading volume	113,476	122,559	225,524	63,010	113,783	174,352	116,696	73,591

* The Toronto Stock Exchange

Statement of Management Responsibility



The accompanying consolidated financial statements of Sears Canada Inc. and all information in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include certain amounts that are based on estimates and judgments. Financial information used elsewhere in the Annual Report is consistent with that contained in the financial statements.

Management is responsible for the accuracy, integrity, and objectivity of the financial statements and has developed, maintains, and supports an extensive program of internal controls and audits that provide reasonable assurance that financial records are reliable and that assets are safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this Annual Report principally through the activities of its Audit and Corporate Governance Committee, all of whom are outside Directors. In monitoring the fulfillment by management of its responsibilities for financial reporting and internal control, the Audit and Corporate Governance Committee meets periodically with senior officers, finance management, and internal and external auditors to discuss audit activities, internal accounting controls, and financial reporting matters. The Audit and Corporate Governance Committee has reviewed these consolidated financial statements and has recommended their approval by the Board of Directors.

The Company's external auditors, Deloitte & Touche LLP, have conducted audits of the financial records of the Company in accordance with generally accepted auditing standards. Their report is as follows.

Executive Vice-President and
Chief Financial Officer

Chairman of the Board and
Chief Executive Officer

Auditors' Report to the Shareholders of Sears Canada Inc.

We have audited the consolidated statements of financial position of Sears Canada Inc. as at January 1, 2000 and January 2, 1999 and the consolidated statements of earnings, retained earnings and cash flows for the 52 weeks then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 1, 2000 and January 2, 1999 and the results of its operations and its cash flows for the 52 weeks then ended in accordance with generally accepted accounting principles.

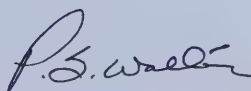
Deloitte & Touche LLP
Chartered Accountants

Toronto, Ontario
February 7, 2000

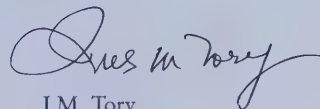
Consolidated Statements of Financial Position

As at January 1, 2000 and January 2, 1999 (in millions)	1999	1998
Assets		
Current Assets		
Cash and short-term investments	\$ 148.1	\$ 190.4
Charge account receivables (Note 3)	403.9	595.0
Other receivables (Note 4)	666.0	505.4
Inventories	814.3	715.8
Prepaid expenses and other assets	98.8	80.3
Future income tax assets (Note 5)	237.1	61.6
	2,368.2	2,148.5
Investments and Other Assets (Note 6)	61.0	50.9
Net Capital Assets (Note 7)	983.6	867.6
Deferred Charges (Note 8)	133.4	131.0
	\$ 3,546.2	\$ 3,198.0
Liabilities		
Current Liabilities		
Accounts payable	\$ 809.9	\$ 683.4
Accrued liabilities	452.6	312.4
Income and other taxes payable	170.6	90.8
Principal payments on long-term obligations due within one year (Note 10)	254.1	163.4
	1,687.2	1,250.0
Long-term Obligations (Note 10)	431.4	680.5
Future Income Tax Liabilities (Note 5)	81.3	103.2
	2,199.9	2,033.7
Shareholders' Equity		
Capital Stock (Note 11)	452.8	451.8
Retained Earnings	893.5	712.5
	1,346.3	1,164.3
	\$ 3,546.2	\$ 3,198.0

Approved by the Board:



P.S. Walters
Director



J.M. Tory
Director

Consolidated Statements of Earnings



For the 52 weeks ended January 1, 2000 and January 2, 1999

(in millions, except per share amounts)

	1999	1998
Total revenues	\$ 6,131.2	\$ 5,481.4
Cost of merchandise sold, operating, administrative and selling expenses	5,600.8	5,031.6
Depreciation and amortization	113.5	95.5
Interest	72.3	85.6
	5,786.6	5,212.7
Earnings before income taxes	344.6	268.7
Income taxes (Note 5)		
Current	180.3	114.7
Future	(35.3)	7.6
	145.0	122.3
Net earnings	\$ 199.6	\$ 146.4
Earnings per share	\$ 1.88	\$ 1.38
Fully diluted earnings per share	\$ 1.86	\$ 1.38

Consolidated Statements of Retained Earnings

For the 52 weeks ended January 1, 2000 and January 2, 1999 (in millions)	1999	1998
Opening balance	\$ 712.5	\$ 591.5
Adoption of new accounting standard for associate future benefits (Note 1)	7.9	-
	720.4	591.5
Net earnings	199.6	146.4
	920.0	737.9
Dividends declared	(25.5)	(25.4)
	894.5	712.5
Premium on common shares purchased for cancellation (Note 11)	(1.0)	-
Closing balance	\$ 893.5	\$ 712.5

Consolidated Statements of Cash Flows

For the 52 weeks ended January 1, 2000 and January 2, 1999 (in millions)	1999	1998
Cash Flows Generated From (Used For) Operations		
Net earnings	\$ 199.6	\$ 146.4
Non-cash items included in net earnings, principally depreciation and amortization, and future income taxes	79.6	111.7
Funds from operations	279.2	258.1
Changes in working capital (Note 12)	68.7	(34.0)
	347.9	224.1
Cash Generated From (Used For) Investment Activities		
Purchases of capital assets	(230.6)	(142.2)
Proceeds from sale of capital assets	11.2	6.9
Charge account receivables	191.1	95.1
Deferred charges	(5.8)	(5.4)
Acquisition of Eaton's (Note 2)	(162.1)	-
Investments and other assets	(10.1)	(28.1)
	(206.3)	(73.7)
Cash Generated From (Used For) Financing Activities		
Issue of long-term obligations	5.6	7.8
Repayment of long-term obligations	(164.0)	(11.6)
Net proceeds from issue of capital stock	1.2	0.9
Purchase for cancellation of capital stock	(1.2)	-
Dividends paid	(25.5)	(25.4)
	(183.9)	(28.3)
(Decrease) increase in cash and short-term investments at end of year	(42.3)	122.1
Cash and short-term investments at beginning of year	190.4	68.3
Cash and short-term investments at end of year	\$ 148.1	\$ 190.4

1. SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Sears Canada Inc. and its subsidiaries together with its proportionate share of the assets, liabilities, revenues and expenses of real estate joint ventures ("the Company").

Fiscal Year

The fiscal year of the Company consists of a 52 or 53 week period ending on the Saturday closest to December 31. The fiscal years for the consolidated statements presented for 1999 and 1998 are the 52 weeks ended January 1, 2000 and January 2, 1999.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined for retail store inventories by the retail inventory method and for catalogue order and miscellaneous inventories by the average cost method, based on individual items.

Prepaid Advertising Expense

Catalogue production costs are deferred and amortized over the life of each catalogue on the basis of the estimated sales from that catalogue.

Deferred Receivables

Deferred receivables are charge account receivables that have not yet been billed to the customers' accounts. Service charges are not accrued on these accounts over the deferral period which generally ranges from six to 13 months.

Capital Assets

Capital assets are stated at cost. Depreciation and amortization provisions are generally computed by the straight-line method based on estimated useful lives of two to ten years for equipment and fixtures, and of ten to 40 years for buildings and improvements.

The Company's proportionate share of buildings held in joint ventures is generally depreciated by the sinking fund method over 20 to 40 years.

The Company capitalizes interest charges for major construction projects and depreciates these charges over the life of the related assets.

Adoption of New Accounting Standard for Associate Future Benefits

Effective January 3, 1999, the Company changed its method of accounting for associate future benefits to conform with the recommendations of The Canadian Institute of Chartered Accountants. Under the new method, costs for associate future benefits are accrued over the periods in which associates earn the benefits. The discount rate used for determining current service cost and the liability for future benefits is the current interest rate at the balance sheet date on high quality fixed income investments with maturities that match the expected maturity of the obligations. In prior years, the discount rate used for pensions was management's estimate of the long-term interest rate. As well, the costs for future benefits, other than pensions, were previously accrued in the year in which the associate retired.

The financial statements for the year ended January 1, 2000 have been prepared on the new basis and the comparative figures for the year ended January 2, 1999 have not been restated. As a result of the adoption, at January 3, 1999, the accrued pension asset was increased by \$97.4 million, the accrued benefit liability was increased by \$89.5 million, and retained earnings was increased by \$7.9 million. The adoption of the new standard resulted in a decrease in net income in 1999 of \$0.7 million and a corresponding increase in the accrued benefit liability.

Adoption of New Accounting Standard for Cash Flows

Effective January 3, 1999, the Company retroactively adopted the new accounting recommendations of The Canadian Institute of Chartered Accountants pertaining to cash flow statements resulting in no changes to the consolidated statements of cash flows.

Deferred Charges

The cumulative excess of contributions to the Company's pension plan over the amounts expensed is included in deferred charges.

Debt issuance costs are deferred and amortized by the straight-line method to the due dates of the respective debt



issues. Securitization set up costs are amortized on a straight-line basis over a maximum of five years.

Other costs are deferred and amortized by the straight-line method over the remaining life of the related asset.

Foreign Currency Translation

Obligations payable in U.S. dollars are translated at the exchange rate in effect at the balance sheet date or at the rates fixed by forward exchange contracts.

Transactions in foreign currencies are translated into Canadian dollars at the rate in effect on the date of the transaction.

Estimates

The preparation of the Company's financial statements, in accordance with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Earnings per Share

Earnings per share is calculated based on the weighted average number of shares outstanding during the fiscal year.

Comparative Figures

Certain of last year's figures have been reclassified to conform with the current year's presentation.

2. ACQUISITION OF THE T. EATON COMPANY LIMITED ("EATON'S")

On December 30, 1999, the Company acquired all of the outstanding common shares of Eaton's, an operator of full-line department stores. Also effective on that date, Sears and Eaton's amalgamated and were continued as Sears Canada Inc.

Under the acquisition agreement, the Company assumed ownership of the Eaton's name, trademarks and website, in addition to certain leased and owned store locations. Included in the transaction are 16 stores. Of the 16 stores, nine are planned to operate under the Sears banner, and seven are

planned to operate under the Eaton's banner. In connection with this acquisition, three existing Sears full-line department stores are planned to close due to their close proximity to the acquired store locations.

The total cost of the acquisition includes professional fees, store closure expenses, non-capital expenses incurred prior to the re-opening of the acquired Eaton's store locations, and transaction and other costs. Management's evaluation of these costs has not yet been fully completed. Included in these financial statements is a cost estimate of \$162 million. This estimate may change once management has completed its evaluation. Included in the above estimate is \$20 million that is payable to former Eaton's shareholders, contingent upon realization of the Eaton's tax losses.

The acquisition was accounted for by the purchase method. The results of Eaton's operations from the date of acquisition are included in these consolidated financial statements. The fair value of assets acquired exceeded consideration paid, therefore, the acquisition costs have been assigned to the future income tax asset.

3. CHARGE ACCOUNT RECEIVABLES

Details of charge account receivables are as follows:

(in millions)	1999	1998
Charge account receivables	\$ 1,822.6	\$ 1,682.5
Less: amounts securitized	(1,418.7)	(1,087.5)
Net charge account receivables	\$ 403.9	\$ 595.0

4. OTHER RECEIVABLES

Other receivables consist of the following:

(in millions)	1999	1998
Deferred receivables	\$ 668.0	\$ 544.5
Less: amounts securitized	(66.0)	(83.2)
Net deferred receivables	602.0	461.3
Miscellaneous receivables	64.0	44.1
Total	\$ 666.0	\$ 505.4

5. FUTURE INCOME TAXES

The tax effects of the significant components of temporary differences giving rise to the Company's net income tax assets and liabilities are as follows:

(in millions)	1999		1998	
	Current	Long-Term	Current	Long-Term
Future income tax assets:				
Non-deductible				
accruals	\$ 75.0	\$ -	\$ 61.6	\$ -
Amount				
related to				
tax losses				
carried				
forward	162.1	-	-	-
Total	\$ 237.1	\$ -	\$ 61.6	\$ -
Future income tax liabilities:				
Depreciable				
capital				
assets	\$ -	\$ 33.5	\$ -	\$ 49.8
Deductible				
prepaid				
expenses	-	42.4	-	45.2
Other	-	5.4	-	8.2
Total	\$ -	\$ 81.3	\$ -	\$ 103.2

The average combined federal and provincial statutory income tax rate, excluding Large Corporations Tax, applicable to the Company was 43.4% for 1999 and for 1998.

A reconciliation of income taxes at the average statutory tax rate to the actual income taxes is as follows:

(in millions)	1999	1998
Earnings before income taxes	\$ 344.6	\$ 268.7
Income taxes at average		
statutory tax rate	149.5	116.6
Increase (decrease) in income		
taxes resulting from:		
Prior year recovery	(6.5)	-
Non-taxable portion of		
capital gains	(1.1)	(0.3)
Non-deductible items	1.6	0.6
Large Corporations Tax	1.5	5.4
Income taxes	\$ 145.0	\$ 122.3
Effective tax rate	42.1%	45.5%

The Company's total cash payments for income taxes paid in 1999 were \$135.7 million (1998 - \$192.2 million).

6. INVESTMENTS AND OTHER ASSETS

(in millions)	1999	1998
Unsecured debentures	\$ 55.6	\$ 44.1
Subordinated loans	5.4	6.8
Total	\$ 61.0	\$ 50.9

Unsecured debentures, which represent investments made by the Company in the independent trusts referred to in Note 16, in the amounts of \$14.1 million, \$6.0 million, \$24.0 million, and \$11.5 million are due in 2010, 2011, 2013 and 2014 respectively. Subordinated loans, which represent loans to one of the independent trusts, are due in 2006. All bear interest at floating rates.



7. NET CAPITAL ASSETS

Capital assets are summarized as follows:

(in millions)	1999	1998
Land	\$ 65.4	\$ 64.3
Buildings and improvements	728.9	592.7
-held by joint ventures	280.4	274.9
Equipment and fixtures	867.6	788.5
Gross capital assets	1,942.3	1,720.4
Accumulated depreciation		
Buildings and improvements	325.3	301.7
-held by joint ventures	54.9	47.9
Equipment and fixtures	578.5	503.2
Total accumulated depreciation	958.7	852.8
Net capital assets	\$ 983.6	\$ 867.6

The carrying values of land and buildings are evaluated by management on an on-going basis as to their net recoverable amounts. This is a function of their average remaining useful lives, market valuations, cash flows, and capitalization rate models. Situations giving rise to a shortfall in the net recoverable amounts are assessed as either temporary or permanent declines in the carrying values; permanent declines are adjusted.

8. DEFERRED CHARGES

(in millions)	1999	1998
Excess of contributions to associate future benefits amounts expensed	\$ 96.1	\$ 99.1
Tenant allowances for proportionate interests in joint ventures	14.6	10.6
Debt issuance and securitization set up costs	6.1	5.1
Other deferred charges	16.6	16.2
Total deferred charges	\$ 133.4	\$ 131.0

9. ASSOCIATE FUTURE BENEFITS

The Company maintains a defined benefit, final average pension plan which covers substantially all of its regular full-time associates as well as some of its part-time associates. The plan provides pensions based on length of service and final average earnings. The Company provides life insurance, medical and dental benefits to eligible retired associates. The Company has adopted the following accounting policies:

- The cost of pensions and other retirement benefits earned by associates is actuarially determined using the projected benefit method prorated on services and management's best estimate of expected plan investment performance, salary escalation, retirement ages of associates and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at market value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of associates active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service of active associates. The average remaining service period of the active associates covered by the pension plan is eight years. The average remaining service period of the active associates covered by the other retirement benefits plan is 13 years.

Notes to Consolidated Financial Statements continued

Information about the Company's defined benefit plans as at January 1, 2000, in aggregate, is as follows:

(in millions)	1999		1998	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Plan Assets				
Market value at beginning of year	\$ 1,201.1	\$ 92.2	\$ 1,136.3	\$ 92.9
Actual return on plan assets	154.5	9.8	97.8	6.4
Employer contributions	1.4	0.5	1.4	0.6
Associate contributions	16.3	—	15.2	—
Benefits paid ¹	(54.7)	(8.8)	(49.6)	(7.7)
Market value at end of year ²	1,318.6	93.7	1,201.1	92.2
Plan Obligation				
Accrued benefit obligation at beginning of year ³	987.8	198.5	705.9	100.3
Total current service cost	44.8	3.5	28.3	2.9
Interest cost	57.8	11.8	56.8	7.9
Benefits paid	(54.7)	(9.2)	(49.6)	(8.5)
Benefit improvements	—	—	47.7	—
Actuarial (gains) losses	(150.7)	(31.4)	24.8	—
Accrued benefit obligation at end of year	885.0	173.2	813.9	102.6
Plan Surplus (Deficit)				
End of year market value less accrued benefit obligation	\$ 433.6	\$ (79.5)	\$ 387.2	\$ (10.4)
Unamortized net actuarial (gain) loss	(222.5)	(35.5)	(175.0)	(6.4)
Unamortized past service costs	—	—	47.7	—
Accrued benefit asset (liability)	211.1	(115.0)	259.9	(16.8)
Valuation allowance ⁴	—	—	(144.0)	—
Accrued benefit asset (liability), net of valuation allowance ⁵	\$ 211.1	\$ (115.0)	\$ 115.9	\$ (16.8)

1 Benefits paid include amounts paid from funded assets. Other benefits are paid directly by the Company.

2 There are no plan assets invested in parties related to the plan.

3 Accrued benefit obligation represents the actuarial present value of benefits attributed to associate service rendered to a particular date.

4 The valuation allowance represents the amount of surplus not recognized on the Company's balance sheet.

5 The accrued benefit asset (liability), net of valuation allowance, represents the amount of the asset (liability) recognized on the Company's balance sheet.



Benefit Plan Expense

(in millions)	1999		1998	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Company current service cost	\$ 28.5	\$ 3.5	\$ 13.1	\$ 2.9
Interest cost	57.8	11.8	56.8	7.9
Expected return on plan assets	(82.7)	(6.2)	(89.7)	(7.1)
Amortization of net actuarial (gain) loss	-	-	(37.1)	-
Amortization of transitional asset (obligation)	-	-	(3.1)	4.5
Valuation allowance provided against accrued benefit asset	-	-	63.7	-
Net benefit plan expense	\$ 3.6	\$ 9.1	\$ 3.7	\$ 8.2

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as at December 31):

(in millions)	1999		1998	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Discount rate ⁶	7.00%	7.25%	8.00%	8.00%
Expected long-term rate of return on plan assets	7.00%	7.00%	8.00%	8.00%
Rate of compensation increase	3.5% + merit	3.5% + merit	4.5% + merit	4.5% + merit

⁶ For the purposes of adopting the new accounting standard as at January 1, 1999, the obligations were measured using a discount rate of 5.75% for pension plans and 6.00% for other benefit plans.

For measurement purposes a 6.2% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate of increase was assumed to decrease gradually to 4.0% for 2004 and remain at that level thereafter.

10. LONG-TERM OBLIGATIONS

(in millions)	1999	1998
Unsecured debentures:		
11.00% due May 18, 1999	\$ -	\$ 150.0
11.70% due July 10, 2000	100.0	100.0
8.25% due December 11, 2000	125.0	125.0
7.80% due March 1, 2001	100.0	100.0
6.55% due November 5, 2007	125.0	125.0
Proportionate share of long-term debt of joint ventures with a weighted average interest rate of 9.1% due 2000 to 2013	219.7	227.1
Capital lease obligations:		
interest rates from 8.0% to 17.0%	15.8	16.8
	685.5	843.9
Less principal payments due within one year included in current liabilities	254.1	163.4
Total long-term obligations	\$ 431.4	\$ 680.5

The Company's proportionate share of the long-term debt of joint ventures is secured by the shopping malls owned by the joint ventures and, in some cases, guaranteed by the Company. The Company's total principal payments due within one year include \$28.1 million (1998 - \$12.4 million) of the proportionate share of the current debt obligations of joint ventures.

Interest on long-term debt amounted to \$68.9 million (1998 - \$78.6 million).

The Company's total cash payments for interest paid in 1999 were \$72.5 million (1998 - \$83.5 million)

Principal Payments

For fiscal years subsequent to the fiscal year ended January 1, 2000, principal payments required on the Company's total long-term obligations are as follows:

(in millions)	
2000	\$ 254.1
2001	134.4
2002	33.6
2003	7.1
2004	6.0
Subsequent years	250.3
Total debt outstanding	\$ 685.5

Significant Financing Transactions

On December 23, 1998, the Company filed a shelf prospectus with securities commissions in Canada that qualifies the issuance of up to \$500 million in medium-term notes (debt with a term to maturity in excess of one year) over the subsequent two years. No medium-term notes have been issued under this prospectus.

During 1998, long-term financing for new capital projects of real estate joint ventures was obtained in the amount of \$3.4 million. In addition, \$15.5 million of joint venture debt matured in 1998, of which \$9.4 million was refinanced.

On May 18, 1999, the outstanding 11.0% unsecured debentures of Sears Canada Inc. in the amount of \$150 million matured and were repaid.

During 1999, long-term financing for new capital projects of real estate joint ventures was obtained in the amount of \$2.7 million. In addition, \$13.0 million of joint venture debt matured in 1999, of which \$2.9 million was refinanced.

11. CAPITAL STOCK

The Company is authorized to issue an unlimited number of common shares and an unlimited number of non-voting, redeemable and retractable Class 1 Preferred Shares in one or more series. As at January 1, 2000, the only shares outstanding were the common shares of the Company. Changes in the number of outstanding common shares and their stated values since January 3, 1998 are as follows:

	1999		1998	
	Number of Shares	Stated Value (millions)	Number of Shares	Stated Value (millions)
Beginning				
Balance	106,083,964	\$ 451.8	105,959,504	\$ 450.9
Issued				
pursuant to				
Special				
Incentive				
Awards	70,000	-	-	-
Issued pursuant				
to stock				
options	146,364	1.2	124,460	0.9
Purchased and				
cancelled	(41,500)	(0.2)	-	-
Ending				
Balance	106,258,828	\$ 452.8	106,083,964	\$ 451.8

During 1999, 41,500 common shares were purchased and cancelled under the Company's normal course issuer bid for a total cash consideration of \$1.2 million.

Details of stock option transactions under the Employees Stock Plan, including Special Incentive Awards, as at January 1, 2000, are set out below. Special Incentive Awards of options and shares are awarded to Senior Officers of the Company on a conditional basis, subject to achievement of specified share price performance and specified vesting periods in the case of options. In 1998, 140,000 shares were awarded as Special Incentive Awards. In October, 1999, specified share price performance was achieved and 70,000 shares were issued. The specified share price performance has not yet been achieved for the remaining 70,000 Special Incentive Award shares.

Options granted and accepted	Option price	Expiry date	Options exercised	Options outstanding
142,150	\$ 7.53	Feb. 1999	136,200	-
195,200	\$ 7.49	Feb. 2000	151,900	43,300
232,301	\$ 5.58	Feb. 2001	196,156	36,145
276,085	\$ 5.58	Feb. 2006	132,639	143,446
60,000	\$ 9.72	Nov. 2006	-	60,000
286,750	\$ 10.65	Jan. 2007	51,456	235,294
30,000	\$ 10.82	Feb. 2007	10,000	20,000
306,870	\$ 19.63	Jan. 2008	14,580	292,290
26,000	\$ 24.73	Apr. 2008	-	26,000
316,830	\$ 21.19	Jan. 2009	-	316,830

Special Incentive Award Options

170,000	\$ 22.75	Feb. 2008	-	170,000
825,000	\$ 28.75	Jul. 2008	-	825,000

Options to purchase 325,160 common shares have been authorized to be granted under the Employees Stock Plan in 2000.

In April, 1998, the Company established the Directors' Stock Option Plan to grant stock options to Directors who are not Executive Officers of the Company or Sears, Roebuck and Co.

Directors' Stock Option Plan:

Options granted and accepted	Option price	Expiry date	Options exercised	Options outstanding
9,000	\$ 25.98	Apr. 2008	1,000	8,000
10,500	\$ 29.96	Apr. 2009	-	10,500

During 1999, a total of 1,000 stock options were exercised under the plan by two retired Directors.

12. CHANGES IN WORKING CAPITAL

The cash generated from (used for) working capital is made up of changes in the following accounts:

(in millions)	1999	1998
Other receivables	\$ (160.6)	\$ 29.1
Inventories	(98.5)	(114.8)
Prepaid expenses and other assets	(18.7)	6.4
Accounts payable	126.5	123.2
Accrued liabilities	140.2	(6.0)
Income and other taxes payable	79.8	(71.9)
Cash generated from (used for) working capital	\$ 68.7	\$ (34.0)

13. COMMITMENTS

Minimum capital and operating lease payments, exclusive of property taxes, insurance and other expenses payable directly by the Company, having an initial term of more than one year as at January 1, 2000 are as follows:

(in millions)	Capital Leases	Operating Leases
2000	\$ 2.7	\$ 100.8
2001	2.7	93.9
2002	2.7	86.9
2003	2.7	82.3
2004	2.7	77.7
Subsequent years	11.7	643.6
Minimum lease payments	25.2	<u>\$1,085.2</u>
Less imputed weighted average interest of 10.5%	9.4	
Total capital lease obligations	\$ 15.8	

Total rentals charged to earnings under all operating leases for the year ended January 1, 2000 amounted to \$88.6 million (1998 - \$80.8 million).

14. SEGMENTED INFORMATION

The Company has three reportable operating segments: merchandising, credit, and real estate joint venture operations.

- The merchandising segment includes the Company's full-line department stores, specialty stores, catalogue operations, and Sears HomeCentral.
- The credit segment finances and manages customer charge account receivables generated from the sale of goods and services charged on the Sears Card.
- The real estate joint venture segment consists of the Company's joint venture interests in shopping centres, most of which contain a Sears store.

The reportable segments have been determined on the basis on which management measures performance and makes decisions on allocations of resources. The accounting policies of the segments are the same as those described in the Summary of Accounting Policies. During the preparation of the internal financial statements the revenues and expenses between segments are eliminated. The Company evaluates the performance of each segment based on earnings before interest expense and income taxes, as well as capital employed. The Company does not allocate interest expense or income taxes to segments.



Segmented Statement of Earnings for the 52 weeks ended January 1, 2000 and January 2, 1999

(in millions)	1999				1998			
	Real Estate Joint				Real Estate Joint			
	Mdse.	Credit	Ventures ⁸	Total	Mdse.	Credit	Ventures	Total
Total revenues ⁷	\$ 5,746.7	\$ 310.0	\$ 74.5	\$ 6,131.2	\$ 5,109.9	\$ 305.9	\$ 65.6	\$ 5,481.4
Segment operating profit	277.1	102.6	37.2	416.9	193.7	126.7	33.9	354.3
Interest expense				72.3				85.6
Income taxes				145.0				122.3
Net earnings				\$ 199.6				\$ 146.4

Segmented Statements of Financial Position as at January 1, 2000 and January 2, 1999

(in millions)	1999				1998			
	Real Estate Joint				Real Estate Joint			
	Mdse.	Credit	Ventures	Total	Mdse.	Credit	Ventures	Total
Assets								
Cash	\$ 144.8	\$ -	\$ 3.3	\$ 148.1	\$ 186.7	\$ -	\$ 3.7	\$ 190.4
Total receivables	102.9	961.2	5.8	1,069.9	68.9	1,024.3	7.2	1,100.4
Inventories	814.3	-	-	814.3	715.8	-	-	715.8
Net capital assets	724.9	-	258.7	983.6	609.2	-	258.4	867.6
Other	503.1	11.5	15.7	530.3	306.1	9.8	7.9	323.8
Total assets	\$ 2,290.0	\$ 972.7	\$ 283.5	\$ 3,546.2	\$ 1,886.7	\$ 1,034.1	\$ 277.2	\$ 3,198.0
Liabilities								
Accounts payable	\$ 803.5	\$ 0.6	\$ 5.8	\$ 809.9	\$ 677.2	\$ 0.1	\$ 6.1	\$ 683.4
Accrued liabilities	424.6	22.0	6.0	452.6	287.7	21.3	3.4	312.4
Other	245.8	(9.7)	15.8	251.9	186.4	(7.6)	15.2	194.0
Total liabilities excluding debt	\$ 1,473.9	\$ 12.9	\$ 27.6	\$ 1,514.4	\$ 1,151.3	\$ 13.8	\$ 24.7	\$ 1,189.8
Capital employed	\$ 816.1	\$ 959.8	\$ 255.9	\$ 2,031.8	\$ 735.4	\$ 1,020.3	\$ 252.5	\$ 2,008.2
Capital expenditures	\$ 223.7	\$ -	\$ 6.9	\$ 230.6	\$ 133.5	\$ -	\$ 8.7	\$ 142.2
Depreciation and amortization	\$ 106.9	\$ -	\$ 6.6	\$ 113.5	\$ 89.5	\$ -	\$ 6.0	\$ 95.5

⁷ The real estate joint venture revenues are net of \$4.5 million (1998 - \$3.7 million) representing the elimination of rental revenues earned from Sears full-line stores. Rental expense of the real estate joint venture segment has been decreased by the same amount having no effect on segment operating profit.

⁸ The real estate joint ventures had cash generated from operations of \$17.8 million (1998 - \$12.3 million), cash used for investment activities of \$10.8 million (1998 - \$9.5 million), and cash used for financing activities of \$7.4 million (1998 - \$2.5 million).

15. RELATED PARTY TRANSACTIONS

Sears, Roebuck and Co. is the beneficial holder of the majority of the outstanding common shares of Sears Canada Inc., holding approximately 55% of the common shares of the Company.

During the year, Sears, Roebuck and Co. charged the Company \$5.0 million (1998 - \$5.4 million) in the ordinary course of business for shared merchandise purchasing services. These amounts are included in the cost of merchandise sold, operating, administrative, and selling expenses.

Sears, Roebuck and Co. charged the Company \$12.0 million (1998 - \$12.5 million) and the Company charged Sears, Roebuck and Co. \$5.8 million (1998 - \$5.4 million) for other reimbursements. These reimbursements were primarily in respect of customer cross-border purchases made on the Sears Card, and the Sears, Roebuck and Co. charge card, as well as software and support services.

There were no significant commitments, receivables or payables between the companies at the end of 1999 or 1998.

16. FINANCIAL INSTRUMENTS

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates and foreign currency. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and controls are in place to prevent and detect these activities. The financial instruments do not require the payment of premiums or cash margins prior to settlement. These financial instruments can be summarized as follows:

Foreign Exchange Risk

From time to time the Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated goods purchased for resale. There were no such contracts outstanding at the end of 1999 or 1998.

Securitization of Charge Account Receivables

Securitization is an important financial vehicle which provides the Company with access to funds at a low cost. Sears Acceptance Company Inc. ("Acceptance"), a wholly owned subsidiary of the Company, purchases all Sears Card charge account receivables (including deferred receivables) generated by merchandise and service sales. Acceptance sells undivided co-ownership interests in its portfolio of charge account receivables and deferred receivables to independent trusts. Acceptance retains the income generated by the undivided co-ownership interests sold to the trusts in excess of the trusts' stipulated share of service charge revenues (refer to Notes 3 and 4).

Interest Rate Risk

To manage the Company's exposure to interest rate risks, the Company has entered into interest rate swap contracts with Schedule "A" Banks. Neither the notional principal amounts nor the current replacement value of these financial instruments are carried on the consolidated statements of financial position.

As at January 1, 2000, the Company had two interest rate swap contracts in place to reduce the risk associated with variable interest rates associated with the floating rate debt issued by the trusts. For the year ended January 1, 2000, a net interest differential of \$5.8 million (1998 - \$8.9 million) was paid on the floating-to-fixed interest rate swap contracts and was recorded as an increase of interest expense of the Company.

Credit Risk

The Company's exposure to concentration of credit risk is limited. Accounts receivable are primarily from Sears Card customers, a large and diverse group.



Interest Rate Sensitivity Position

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates.

The table below identifies the Company's financial assets and liabilities which are sensitive to interest rate movements and those which are non-interest rate sensitive. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

(in millions)	1999		1998	
	Interest Sensitive	Non-Interest Sensitive	Interest Sensitive	Non-Interest Sensitive
Cash and short-term investments	\$ 148.1	\$ -	\$ 190.4	\$ -
Investments and other assets	61.0	-	50.9	-
Total receivables	-	1,069.9	-	1,100.4
Long-term obligations (including current portion) ⁹	(249.8)	(435.7)	(182.5)	(661.4)
Net balance sheet interest rate sensitivity position	\$ (40.7)	\$ 634.2	\$ 58.8	\$ 439.0

⁹ Interest sensitive portion includes long-term prime-rate based debt and current portion of long-term debt due to be renegotiated.

In addition to the net balance sheet interest rate sensitivity position, the Company is also affected by interest rate sensitive debt outstanding in the independent trusts. Any change in short-term interest rates will impact floating rate debt and debt with maturities of less than one year held by the trusts, which totalled \$705.8 million at January 1, 2000; \$841.7 million at January 2, 1999. An increase in the cost of this off-balance sheet debt will result in a decrease in the Company's share of service charge revenues. This interest rate exposure is offset, in part, by interest rate swap contracts held by the Company in the notional amount of \$250 million (1998 - \$350 million).

Fair Value of Financial Instruments

The estimated fair values of financial instruments as at January 1, 2000 and January 2, 1999 are based on relevant market prices and information available at that time. As a significant number of the Company's assets and liabilities, including inventory and capital assets, do not meet the definition of financial instruments, the fair value estimates below do not reflect the fair value of the Company as a whole.

Carrying value approximates fair value for financial instruments which are short-term in nature. These include cash and short-term investments, charge account receivables, other receivables, prepaid expenses and other assets, bank advances and short-term notes, accounts payable, accrued liabilities, income and other taxes payable, and principal payments on long-term obligations due within one year. For financial instruments which are long-term in nature, fair value estimates are as follows:

(in millions)	1999		1998	
	Carrying or Notional Amount	Fair Value	Carrying or Notional Amount	Fair Value

Financial Assets and Liabilities

Investments and other assets	\$ 61.0	\$ 61.0	\$ 50.9	\$ 50.9
Long-term obligations	\$ 431.4	\$ 441.0	\$ 680.5	\$ 713.6

(in millions)	1999		1998	
	Carrying or Notional Amount	Fair Value Premium/ (Discount)	Carrying or Notional Amount	Fair Value Premium/ (Discount)

Off-Balance Sheet Interest Rate Swaps

9.40%, expiring April 1999	\$ -	\$ -	\$ 100.0	\$ (2.1)
4.95%, expiring April 2001	150.0	1.4	150.0	-
9.54%, expiring April 2002	100.0	(8.1)	100.0	(14.4)
	\$ 250.0	\$ (6.7)	\$ 350.0	\$ (16.5)

The fair value of investments and other assets and long-term obligations was estimated based on quoted market prices, when available, or discounted cash flows using discount rates based on market interest rates and the Company's credit rating. As long-term debt coupon rates are higher than current market interest rates, the fair value of the Company's long-term debt exceeds its carrying value.

The fair value of the interest rate swap contracts was estimated by referring to the appropriate yield curves with matching terms of maturity. A fair value discount reflects the estimated amount that the Company would pay to terminate the contracts at the reporting date.

17. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company, including those related to customers, suppliers, or other third parties, have been fully resolved.



The Corporation, the Board of Directors and management are committed to maintaining high standards of corporate governance. The Board believes that strong corporate governance practices are essential to the success of the Corporation, to effective corporate performance and to the best interests of shareholders.

The Board of Directors is responsible to oversee the business and affairs of the Corporation, acting with a view to the best interests of the Corporation, providing guidance and direction to the management of the Corporation in order to attain corporate objectives and maximize shareholder value. The Board carries out its stewardship functions directly and through its Committees.

The Board of Directors and the Audit and Corporate Governance, Compensation and Nominating Committees of the Board are each responsible for certain corporate governance functions in accordance with their respective mandates. The Audit and Corporate Governance Committee is responsible for monitoring and guiding the corporate governance approach and practices of the Corporation. This Committee is satisfied that the Corporation is in substantial conformance with the recommended practices of The Toronto Stock Exchange.

The Directors are elected annually by the shareholders. The Board is currently composed of eleven Directors. The Corporation's significant shareholder, Sears, Roebuck and Co., beneficially holds approximately 55% of the common shares of the Corporation. Three Directors are executive officers of Sears, Roebuck and Co. and seven Directors (or approximately 64% of the total number of Directors) are independent of the Corporation and its affiliates. The Board's composition fairly reflects the investment in the Corporation by minority shareholders and the independence of the Board from management.

The Board has five regularly scheduled meetings each year with additional meetings held as required. The Board has the opportunity to meet in camera (without management present) at each meeting. In 1999, there were eight meetings of the Board, three meetings of the Audit and Corporate Governance Committee, two meetings of the Compensation Committee and one meeting of the Nominating Committee. Attendance of the Directors at these meetings has regularly exceeded 90%.

The Corporation has designed the Directors' compensation to align the Directors' interests with corporate performance and the return to shareholders. Independent Directors receive an annual equity grant of common shares and stock options under plans established by the Corporation. In addition to equity compensation, independent Directors receive an annual cash retainer of \$18,000 for serving on the Board. The Chairs of the Board Committees receive an additional annual retainer of \$3,000. No fees are paid for Directors' attendance at Board or Committee meetings.

A more detailed Statement of Corporate Governance Practices is contained in the Management Proxy Circular of the Corporation, dated March 1, 2000, a copy of which may be obtained from the Secretary. The Directors of the Corporation, their principal occupations and Committee appointments are listed on page 65 of this Report.

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Canada M5B 2B8

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Toronto, Ontario
Montreal, Quebec

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Internet Address: www.cibcmellon.com (website) or
inquiries@cibcmellon.com (e-mail)

Stock Exchange Listing

The Toronto Stock Exchange

Trading Symbol

SCC

Annual Meeting

The Annual Meeting of Shareholders of
Sears Canada Inc. will be held on Monday,
April 17, 2000 at 10:00 a.m. in the
Burton-Wood Auditorium
Main Floor
222 Jarvis Street
Toronto, Ontario, Canada

Édition française du Rapport annuel

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Société, veuillez écrire au Service des relations
publiques, ou composer le (416) 941-4425

For More Information

Additional copies of the Annual Report can be obtained
through the Public Affairs Department at the Head Office
of Sears Canada Inc.

For more information about the Company, write to
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Sears Canada Inc., Sears, Roebuck and Co., or used under
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Directors and Officers (as at February 1, 2000)

Board of Directors *(from left to right)*

Back row: Julian C. Day, André Caillé, James M. Tory, Arthur C. Martinez, James W. Moir, Jr., Alfred Powis, Paul S. Walters

Front Row: James R. Clifford, Mary Mogford, Micheline Bouchard, Jalynn H. Bennett



SEARS

Board of Directors

Jalynn H. Bennett ♦

President, Jalynn H. Bennett and Associates Ltd.

Micheline Bouchard ♦

Chairman of the Board, President and Chief Executive Officer, Motorola Canada Limited

André Caillé ■

President and Chief Executive Officer, Hydro-Québec

James R. Clifford

President and Chief Operating Officer, Full-Line Stores, Sears, Roebuck and Co.

Julian C. Day ♦

Executive Vice President and Chief Operating Officer, Sears, Roebuck and Co.

Arthur C. Martinez ■

Chairman of the Board, President and Chief Executive Officer, Sears, Roebuck and Co.

Mary Mogford ●

Partner, Mogford Campbell Associates Inc.

James W. Moir, Jr. ♦♦

Corporate Director

Alfred Powis ■♦♦

Corporate Director

James M. Tory ■♦

Partner, Torys, Barristers & Solicitors

Paul S. Walters ■♦

Chairman of the Board and Chief Executive Officer, Sears Canada Inc.

Committees

■ Compensation ♦ Audit and Corporate Governance ● Nominating

Paul S. Walters is an ex officio member of the Nominating Committee.

Honorary Directors

James W. Button

Former Senior Executive Vice President of Merchandising, Sears, Roebuck and Co.

C. Richard Sharpe

Former Chairman of the Board and Chief Executive Officer, Sears Canada Inc.

Officers

Paul S. Walters

Chairman of the Board and Chief Executive Officer

H. Ray Bird

Senior Vice-President, Credit

Richard A. Brown

Senior Vice-President, Strategic Initiatives

John T. Butcher

Executive Vice-President and Chief Financial Officer

Barbara L. Duffy

Senior Vice-President, Human Resources

Brent V. Hollister

Executive Vice-President, Sales and Service

John D. Smith

Senior Vice-President and Chief Information Officer

Richard W. Sorby

Executive Vice-President, Marketing

William R. Turner

Executive Vice-President, Merchandising and Logistics

Rudolph R. Vezér

Senior Vice-President, Secretary and General Counsel

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